AGRI-FOOD

A LOOK AHEAD

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FOREWORD

The publication of the proceedings from the Agri-Food: A Look Ahead Conference is intended to communicate to a wide segment of the agrifood sector, the substance of discussion which took place October 16-17, 1984. It summarizes the comments of guest speakers and their responses to questions from the audience. It also summarizes the background paper, "Economic Outlook with Commodity Detail", prepared by the Economics and Policy Coordination Branch of the Ontario Ministry of Agriculture and Food for distribution at the conference.

The theme of the conference was Planning and Policy-Making: Agri-Food Evolving in a Complex Environment, featuring prominent speakers who focused on specific issues, trends, opportunities and problems, as seen from their individual perspectives in their respective fields.

The conference was attended by a wide range of agriculturally-oriented groups — producers, farm associations, marketing boards, food processors, wholesalers, retailers, and trade associations, as well as legislators, bankers, investment dealers, academics, critics, lobbyists and the media.

The problems, policies and strategies raised by the speakers alerted participants to the changing circumstances affecting their products, provided alternatives for addressing those challenges, and encouraged awareness and understanding of the viewpoints and positions of various segments of the agri-food sector. The wide range of delegates increased the scope of the discussions, and provided agri-food decision-makers with additional insights into the rapidly changing environment in which the industry operates.

The response of delegates indicated that the conference achieved its purpose: to provide a forum for the interaction of the widely diverse groups who make up the agri-food sector, in order to increase awareness of issues facing this important sector of the Ontario economy. Future conferences will have different themes, but each will continue this process of communication among the various segments of the agri-food community.

Additional copies of this publication, or of the complete text of the background paper prepared for this conference, can be obtained by writing to:

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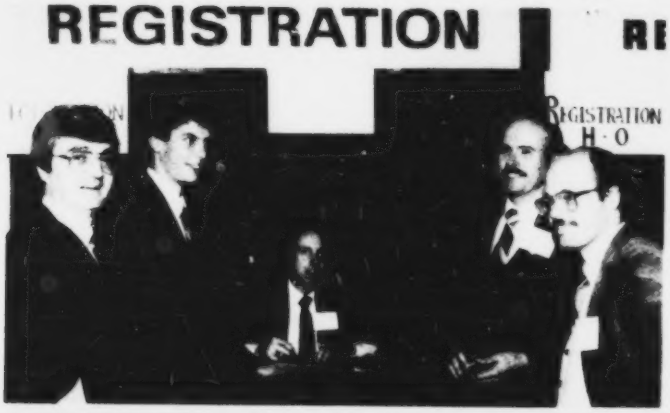
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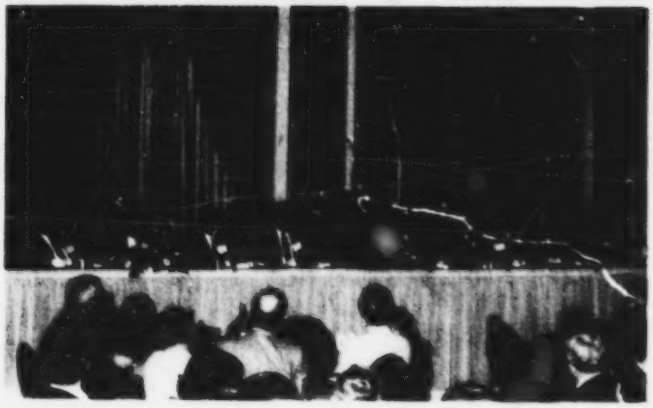

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Ministry of Agriculture and Food
ONTARIO

Economic Background and Commodity Forecast

prepared by the Economics Branch, Ontario Ministry of Agriculture and Food

Economic Overview

WORLD ECONOMY

The world economic recession, dating from the early 1980s, is only now slowly turning into a recovery for most countries. High unemployment and high real interest rates hinder the economic growth which expanded consumer demand has spurred. In the industrialized countries the most positive signs are strong export demand, mainly to the U.S., and reduced inflation.

The U.S. has led the global economic recovery. U.S. growth caused imports to outstrip exports by $120 billion, benefiting exporters such as Canada, Japan and Western Europe. Concurrently, the U.S. has attracted foreign currency by tight monetary and high interest policies to finance its public and trade deficits and general recovery.

An impending slowdown of the U.S. economy, likely to last through 1985, will reduce U.S. demand for exports. Normally, the resulting lower credit needs by private industry would lead to lower interest rates and a lower value of the U.S. dollar. However, heavy borrowing to finance the recovery and the federal deficit is causing a substantial outflow of interest payments. To pay these financial obligations during an economic slowdown more money may be printed, raising inflation. If so, interest rates may rise but the U.S. dollar would decline. Hence other countries' economic growth, which has depended heavily on U.S. growth, will likely be small in 1985.

A lower value of the U.S. dollar will reduce the price of various commodities traded internationally. The price of oil will likely remain steady at U.S.$29/barrel, benefiting importing countries. North American technology and agricultural exports would also decline in terms of foreign currency. Since most international debts are denominated in U.S. dollars, a devaluation will decrease international indebtedness. These factors will partly offset the effects of the U.S. economic slowdown on most industrialized and third world countries.

There have been few protectionist measures despite the recession. Relocation of steel and auto plants have led to voluntary export restraints smaller than those requested by the industries hurt by those imports.

The economic growth in the United States has highlighted the failure of economic policies in other countries. The French Government's reversed stance indicates the renewed global emphasis on the private sector. The lack of employment growth, particularly in the EEC, is a sensitive social issue.

Japan and other Oceanic countries continue to grow at respectable rates. Although they are also swamped by the U.S. recovery, regional economic, political or trade factors are important to their specific economic outlook. Deregulation in the U.S. is creating opportunities for growth and cooperation between these countries and the U.S.

To sum up, currently international economic conditions appear to be improving, debtor countries' current accounts are strengthening and IMF-sponsored reschedulings are proceeding smoothly. However, the uncertainty of interest rate forecasts and economic performance in 1985 means lenient lending policies of the world's major banking institutions should be maintained.

Financial restructuring of international debts is almost certain to continue in the foreseeable future to prevent a major disruption to the North American banking industry.

UNITED STATES

U.S. consumers and businesses turned the recovery that began in December 1982, into a record expansion. The U.S. economy, exceeding expectations, grew strongly into the summer of 1984. The real GNP increased by 3.7 percent in 1983, and at a rate of 8.8 percent in the first half of 1984.

Real GNP growth for 1984 should be near 6 percent. Growth in the third and fourth quarters will total 5 and 4 percent respectively, declining to just under 4 percent in 1985. Inflation for 1984 will be low, probably about 3.5 percent, partly as a result of the recession's slack labour market and low or falling commodity prices, particularly oil.

From the recession's low point in 1982, the U.S has generated 6.4 million new jobs, while the unemployment rate dropped from 10.7 percent in 1982 to 7.5 percent currently. Rising per capita personal income and the first real tax cut since the 1960's fuelled consumer spending to a peak increase of 7.5 percent. Business spending in the first half of 1984 grew at an annual rate of 20 percent, supported by record profits, foreign capital inflows, and favourable tax treatment.

Interest rates and, in particular, real interest rates have remained high, probably because of the Federal Reserve Board monetary policy and inflationary expectations. The Federal Reserve Board continues to balance between speeding money growth, thereby causing inflation, and tightening the money supply, thereby restricting economic growth. From now to mid-1985, high real rates are expected with the prime rate fluctuating around 11 percent.

The U.S. dollar reached record highs in September. It has defied predictions of collapse for two years. Nevertheless, 1985 should see a shrinking dollar as the economy cools and the trade deficit finally impacts on the dollar.

Estimates of the federal deficit over the next several years vary, but almost all agree that it will be large. The deficit is currently running at a rate which will total $176 billion by year end. The U.S. administration projected a deficit of $167 billion.

The U.S. trade deficit is at a record level, probably totalling around $120 billion and perhaps rising to $135 billion in 1985. Imports have increased nearly one-third in the past year, whereas exports have increased only modestly.

The positive environment of low inflation, the deregulation of business, and tax cuts and expenditure restraints exercised since 1982, seems likely to hold with Reagan's re-election.

CANADA

Although Canada's real economic growth will average 4.4 percent for 1984, an economic slowdown began during the last half of the year and will likely continue until mid-1985. On an annual rate, expansion is expected to be only 2.5 percent for the last two quarters of 1984 and 1.5 percent for the first half of 1985, resulting mainly from interest rate increases durng the first half of 1984, a possible decrease in exports, and tax increases in late 1984 and in 1985. High interest rates (prime of 13 percent) have already caused a slowdown in residential construction and weakened consumer spending on durables.

Economic growth for 1985 is projected at 2.5 percent, with some estimates close to no growth. Growth in the last half of 1985 might improve as lower interest rates add stimulus to the residential construction and durable goods markets.

Inflation is unlikely to be a problem in Canada during the remainder of 1984 and all of 1985. Price and wage demands will be moderate because of excess capacity and high unemployment. The inflation rate estimated for 1984 is 4.4 percent, down from 5.8 percent in 1983. For 1985, inflation is expected to remain at 4.4 percent or below if, as expected, interest rates fall a little and the Canadian dollar appreciates against the U.S. dollar.

Unemployment will remain around 11 percent. With the deficit at 6 percent of the GNP, the government will have little fiscal flexibility to deal with it. Business investment in plant and equipment will probably continue to be too low for the next 12 months to affect unemployment. Either the federal deficit will rise in 1985 or government spending will be reallocated to alleviate unemployment.

During 1984 Canada experienced export growth, especially to the United States. The depreciated Canadian dollar and the growth in the U.S. will see the merchandise trade surplus grow $20 billion this year. The current account should remain in balance for 1984 as a services deficit of $20 billion is expected.

With slower economic growth and moderating U.S. interest rates in 1985, the Bank of Canada may be able to ease its monetary policy and provide more flexibility for Canadian interest rates to differ from U.S. rates. This could lead to a decline in exports to the U.S. during the latter half of 1985, and some appreciation of the Canadian dollar, whose value will remain below 80¢ U.S.

Canada's major economic risk in 1985 relates to interest rates. The U.S. prime interest rate could be pushed to 14-15 percent. As Canadian rates are closely aligned with U.S. rates, this could lower Canada's growth more than currently expected.

Ontario's economy has shown healthy growth during 1984. The 1984 gross provincial product is expected to be 5 percent, compared with 4.4 percent for Canada. Employment, seasonally adjusted, has increased by 110,000 jobs during the last 12 months. However, with more people looking for work, unemployment rose by some 20,000. Continued but slower growth of 2 to 3 percent, low inflation, increased investment in machinery and equipment, and significant capital expenditures by the auto industry are positive signs for Ontario's economy in 1985. Consumer confidence and some increase in disposable income may lead to increased demand for goods and services.

Table 1. Major Economic Indicators, 1984:IV to 1985:III

Indicator	84:IV	Quarter 85:I	85:II	85:III
		– percent –		
Prime Interest Rate (MCMSR)	12.8	13.0	13.0	13.2
CPI, Inflation (MCMSR)	4.3	4.5	5.1	5.6
Ontario Unemployment (AERIC)	9.1	9.4	9.6	9.9
Canadian Unemployment (AERIC)	11.3	11.5	11.7	11.9

Source: Economics Branch, except where indicated.
MCMSR Monthly Capital Market Survey Results, Ministry of Treasury and Economics, October 2, 1984.
AERIC Applied Economic Research and Information Centre, The Conference Board of Canada, July 31, 1984.

Planning and Policy — Agri-Food Sector

OVERVIEW

The uncertain global economy is playing havoc with private and corporate strategies. No longer can individuals or firms expect protection through well thought-out long-range corporate strategies based merely on cost-reduction or single product sales. Planning and policy-making in the agri-food sector will now occur in a new environment of global competition, expanding technology, increased market segmentation and increased awareness of the consumer.

Successful firms are minimizing the staff role of corporate strategists while expanding the responsibility of managers and employees on the front line. The corporate staff expansion of the 1960's and 1970's has given way to the implementation-oriented strategists of the 1980's.

MARKET FORCES

Fiercer competition, deeper concerns over monetary problems, and growing uncertainty over previously stable commodity prices are all part of the market environment facing producers in the agri-food sector. Structural changes have reached into the food processing, food retailing, and foodservice sectors.

Market segmentation and a price conscious public — both impacts of the recent recession — have opened opportunities for many new products, and also eliminated many. While the North American agri-food industry retains its comparative global advantage, the competition within and between segments of this industry is increasing.

Farmers, processors, agribusiness, and retailers have faced unstable interest rates, volatile commodity prices, variable government policies, and knowledgeable, discriminating consumers. The optimistic outlooks of the 1970's have given way to the overly pessimistic forecasts of the 1980's. Protectionist policies, world debt problems, excessive national deficits are all used as proof of limited markets. It would seem that the limits on the supply side have now been replaced by the limits to growth on the demand side.

However, these scenarios grossly underestimate the viability and opportunities in the North American agri-food sector. Scanners in retail outlets, biotechnology and personal computers in the farm sector, and robotics and new packaging materials are adaptations the North American agri-food industry is using to succeed in this tough environment. The successful merging of supermarket and financial services in the U.S., with the expanded use of automated teller machines exemplifies this adaptability.

It is within this relatively harsh market environment that policy at individual, corporate, and private organization levels must be made. Adaptability and implementation are key items leading to strategies of least-cost, where possible, and a continuous review of consumer demand.

POLICY ENVIRONMENT

The recession, increased global competition, information overhead, changing demographics, abrupt changes in macro-economic policies and new life styles have changed the market and policy environments facing the agri-food sector. Individuals and organizations must be able to react to changes quickly and effectively. It is absolutely necessary to understand the overall market environment and the appropriate strategy to succeed in it. Governments, farmers, processors, suppliers and wholesalers, must understand both the abrupt switches in consumer tastes, and the continuing loyalty to certain product characteristics.

The impact of all these changes can best be seen in the restructuring of the North American meat packing sector. This industry has seen changing corporate sizes, specialization of independents, new technology at the processor and retailer levels, meat grading changes, and downward pressures on labour wages. These are all partial results of the changed demand for beef, pork and chicken, and unemployment which provides companies with a labour pool. Similar changes have occurred in food retailing.

Unfortunately the "winners" and "losers" in such situations do not always agree on the desireability of ongoing change. Nor is it always possible or desirable for public policy to adapt readily to market changes. Conflicts between public and private policies remain constant, even during market turmoil.

Individuals and groups within the agri-food sector will need to adapt constantly, understanding and incorporating public sector macro policies with the day-to-day strategies of competitors, suppliers, and customers. Finding common goals, within a segment of this industry and beyond, will become necessary as all groups in the agri-food sector realize their interdependence. Cooperation is already becoming a successful strategy in food retailing as participants take advantage of the changed market environment, market structures, and profit opportunities.

RECENT AND ANTICIPATED DEVELOPMENTS

Joint ventures, mergers, and cooperative strategies will likely continue in the private sector of the agri-food industry as evidenced by *Business Week* and *Forbes* cover stories on food processing mergers, and the success of independent food retailers (aided by major food wholesalers).

Key elements are the ability to react to local demands, to strengthen corporate bases to meet accepted corporate strategy goals, and to anticipate on a global scale, changes in consumer tastes within an extremely competitive environment.

The competition is keen, as companies cross over product groups to fill perceived market niches. Farm groups too are competing to represent clients on a wide range of issues and are encountering conflicts, as in the case of wine protection proposals.

Recently, new corporate and public strategies have avoided the grandiose and concentrated on the bottom line. Greater care is being taken to ensure that new strategies are implementable.

CHALLENGES TO THE AGRI-FOOD INDUSTRY

The recent recession highlighted both strengths and weaknesses of the North American agri-food sector. Recent mergers in the U.S. food industry reveal corporate faith in a supposedly low-growth sector. Redirection and reinvestment strategies exist also among food retailers, foodservice and institutional firms, and agricultural machinery and supply firms. There is great strength in the American and Canadian farm sectors with their massive asset bases, increased education and skill levels, improved management, and technological successes.

For planning and policy making in such an environment, individuals and corporations must realize that a fixed strategy can lead to ruin. Adaptability, global awareness, and interdependence of goals, strategies and players are needed now.

In Ontario's grape and tobacco sectors, increased competition, taxation pressures and health concerns highlight the impacts of non-farmers on sub-sections of the agri-food industry. Both groups are responding with industry-wide measures.

All groups in the agri-food sector must be willing to adjust their policies even faster. Development of market niches can work for individuals or corporations, but whole industries need a wider response. The income, employment and profit growth in the 1980's will have to be earned; the private sector must accept that.

For public policy making, the challenges go beyond economics into the core decision-making processes of society.

Agricultural Policy — Challenges

UNITED STATES

Essentially, policy and planning for agriculture in the United States is molded from the priorities of the Administration and the interests of the various farm organizations as interpreted by both the Congress and Administration.

The major policy thrust usually comes from the Administration as it attempts to achieve its agricultural policy goals by passing the necessary legislation through Congress. Congress has its own agenda to push which often conflicts with the Administration's. Private organizations such as farm and commodity groups press their often conflicting goals and concerns on both the Congress and Administration.

Every four years, usually the year after a presidential election, major farm legislation is passed that sets the tone of agricultural policy for the next four years. Currently, legislators and interested parties are preparing input for the 1985 U.S Farm Bill. New entrants into the policy arena will be consumers concerned about the costs and health qualities of food products; taxpayers concerned about the staggering costs of government programs of all types; and even trading partners and competitors who will be concerned about the availability and pricing of export commodities.

Given the problems and changes since the last major farm bill in 1981 and a general dissatisfaction with the old farm policies, the new farm policy is expected to be more market oriented. Even so, the policy debate may not result in unity or harmony. The wide array of participants and the divergent goals will make this farm bill difficult to forge.

The structure of the agricultural sector and the general economic environment are much different from what they were when the 1981 Farm Bill was formed. The soaring price and asset values of the 1970's

have undergone an abrupt correction. A deep world recession, an appreciating U.S. dollar, international debt problems and high U.S. domestic price supports are part of the new farm environment. Also, the familiar pattern continues of fewer and larger farms accounting for a greater percentage of sales.

Today's farm policy makers are very much aware of the impact of macro-economic policies including government monetary policy, spending, taxation, and their resulting effects on interest rates, and the value of the U.S. dollar. They know well that high real rates of interest affect both domestic farm credit and the international marketplace. They regard the strong U.S. dollar and high farm price supports major reasons for the country's declining share of the world export market.

Trade and export development will be important agenda items in the 1985 Farm Bill. The role of exports in the agricultural economy is crucial and attention will be focused on reversing the declines of recent years. The trend of declining exports will prove difficult to reverse because production outside the U.S. is generally rising and exporting competitors are trying hard to develop and maintain markets. In many cases, other countries can compete only due to high domestic support prices in the U.S.

Supply control programs for exportable commodities have not functioned well in the past. When domestic production was cut to reduce growing surpluses, foreign competition grew to fill the void. Production cuts not only raised international prices thereby helping others to compete but also contributed to a declining export share.

The likely result is an agricultural policy or bill more responsive to the international market economy. A market oriented agricultural policy will probably benefit the farm economy, and will clearly link the need for cost cutting to the programs themselves. Reducing price supports may make U.S. agriculture more competitive and reduce the burden of farm programs on the U.S. Treasury.

Another key consideration for farm policy is the financial situation of many U.S. farmers. Access to credit, its price, its terms, and debt restructuring are becoming major elements of U.S. farm policy. While approximately 30 percent of U.S. farmers are debt free, many others must cope with increased or increasing debt to income ratios, illiquidity, higher rates of interest, shorter loan maturities, etc. As an interim response President Reagan announced debt restructuring proposals this past September. Longer term solutions will likely be found in the 1985 Farm Bill or in a number of bills introduced into Congress.

THE EUROPEAN ECONOMIC COMMUNITY

The European Economic Community (EEC) continues to suffer under the burden of financial difficulties. In March 1984, the Council of Ministers agreed on measures to rationalize the Common Agricultural Policy and put it on a sound, economic basis. Some of the important policy changes were to reduce subsidies if production exceeds a reasonable level; to impose quotas on milk production; to remove the monetary compensation amounts used to offset currency fluctuations; to adopt a more realistic policy on prices which means lower guaranteed prices; to reduce some direct aids and premiums paid on certain products; and to rationalize some trade agreements with individual countries.

Agricultural budget problems continue to plague the EEC. On October 3, EEC ministers agreed to release funds for the remainder of 1984 which had previously been blocked. They also agreed on the budget for 1985 of 26 billion ECU's (European Currency Unit; 1 ECU = Cdn $.96). This budget, however, will be short about 2.8 billion ECU's and there is no plan for financing this. Some measures have been taken to alleviate future budget shortfalls, such as the 40 percent increase in the Value Added Tax, but that does not come into effect until January 1, 1986, the same time the Community will be expanded.

Some specific commodity problems will not be resolved quickly or easily. A 30 million hectolitre surplus of wine remains. Proposals to reduce it to 12 million hectolitres may cost 130 million ECU's in 1984 and 150 million ECU's in 1985. Butter stocks are burdensome and proposals to dispose of existing and future surpluses to the USSR, Iran and other Arab nations may cost 150 million ECU's in 1984 alone.

EEC crop prospects are good this year and with a continuing strong U.S. dollar, grain may be exported without a subsidy for the first time since 1974. Two years ago, the subsidy was U.S.$55 a ton. EEC officials state, however, that they are not starting a trade war and that they will limit grain exports to 14 percent of the world market.

CANADA

Canadian agricultural policy is not set out in a major farm bill as in the U.S. Also unlike the U.S. (but similar to the national divisions within the EEC), public agricultural and food policy in Canada must be developed between two levels of government, with the provinces playing a substantial role in policy-making and program delivery.

The recent federal election campaign provided an opportunity to set out the priorities for Canadian agriculture. The federal Conservative platform focused upon five principles: preservation of the family farm, expansion and diversification of the family farm, intensification of research and development resources, fair prices for consumers, and fair returns to producers. They then outlined 14 points or measures involving tax reduction, agricultural credit, price stabilization and marketing assistance to fulfill the five principles.

The federal government's ability to implement these measures will depend upon the flexibility within the federal budget, and the cooperation of the provinces. Budgeting problems will remain severe within all jurisdictions — global, national or provincial. Future federal agricultural policy will likely entail greater trade-offs between current and proposed programs than in the past.

However, most of the current federal agricultural and food policy will probably remain intact, as it focuses upon improved productivity, market development and increased research and development efforts. The thrust of any future changes in federal agricultural policy will likely be modification of enhancement of existing policies, rather than radical divergences.

ONTARIO

As stated, agricultural policy in Canada will be constrained by budgeting problems at each level of government, and by the split jurisdiction for agriculture and food. Also agricultural policy in the U.S. and Canada is a mixed enterprise with both governments allowing farmers/farm organizations legal control of some specific commodity sectors.

Agricultural and food policy in Ontario implicitly recognizes these factors and the resulting impacts on agri-food structures and agri-food problems. The thrust to achieve national programs for stabilization, and more recently agricultural credit (e.g. agribonds) is an attempt to

rationalize program costs and impacts, while allowing producers with comparative advantages for various commodities to compete fairly.

The second, and probably greater implicit realization, is the awareness that most of Ontario's agri-food industry must compete within national or North American markets. Market expansion opportunities do exist, but institutional, trade and policy barriers can deflect or eliminate profit growth for certain segments of the industry. The counterbalancing impact of increased agricultural and food imports threatens the current status quo of other segments of the industry. Agricultural and food policy in Ontario must continue to tread a fine line, particularly as the impacts of any major change, beneficial or adverse, will not be evenly felt.

The market structure of the entire agri-food sector will play a more important role in the design and analysis of any new programs for any segment of the agri-food industry. These analyses will become increasingly difficult as the agri-food sector develops into a more interdependent system within national and provincial economies.

Agricultural Overview of Ontario

Many view the devaluation of the Canadian dollar against the U.S. dollar since the mid-1970s as a significant benefit to the agricultural sector. In a North American market with domestic prices largely determined by events in the U.S., the weaker dollar is assumed to have induced significantly higher agricultural prices, production, exports and income. However, the depreciated dollar has led to higher prices for inputs, negating some profit opportunities from higher output prices. The evidence to date suggests a devalued dollar is not as beneficial as previously thought. Further, the dollar has appreciated against the currencies of offshore trading partners, thus curbing the competitiveness of provincial exports to Europe and elsewhere.

The agricultural sector must assess the implications of an appreciating Canadian dollar relative to the U.S. and a depreciating Canadian dollar relative to other foreign currencies. If the Canadian dollar rises against U.S. currency both domestic input and output prices will fall. The relative magnitudes of change in price levels will depend on several factors but net income will probably decline, as will asset values (e.g. land). A depreciation against European and Japanese currency will enhance the competitiveness of our exports in those markets.

FARM INPUT SECTOR

The major farm operating expenses are crop and livestock inputs (seed, fertilizer, feeder cattle, pesticides), machinery (purchasing and operating), land, labour and credit. Between 1978 and 1982 total farm input costs increased 48 percent, but increases were higher for fertilizer and pesticides (58%), machinery replacement (58%), cost of operating machinery (80%) and cost of credit (112%). The moderation in cost increases since 1982 has been a welcome relief.

In turn, farm commodities prices rose only 32 percent during the 1978-82 period. As a result many farmers lost equity in their business (i.e. their debts increased), while others went bankrupt or gave up farming. The combined results have been reduced purchases of machinery, rearranged financing and more astute management of the farms.

Farm Machinery

The demand for farm machinery will continue to decline as farms become fewer and their average size larger. Farmers use their equipment longer and purchase fewer units per unit of land than they did in the 1970's. The total number of units sold in North America in 1983 was half of the 1976 level.

Neither new companies entering the North American market nor the traditional manufacturers can maintain their levels of sales and profitability. All companies are offering a variety of incentive programs, including discounts for cash purchases and reduced interest rates, tied to company financing.

In the spring the industry expected an 8 percent increase in tractor sales with modest gains for other types of equipment, which did not materialize. The industry has a nine-month supply of equipment, compared to 30 days for the automobile industry. No recovery is expected until at least 1985, with little or no change in prices.

Fuel

An increase of 8 percent in energy expenditures in 1984 is mainly the result of larger corn and soybean acreages. Compared to other inputs, the energy situation remains favourable to farmers. Supplies will likely remain adequate and prices firm, with the OPEC price for crude oil around $29 per barrel. Farmers may enjoy lower prices if the federal government removes taxes on fuels.

Credit

During the 1970's, the real cost of credit to farmers was abnormally low with real interest rates ranging from a low of -0.1 percent in 1974 to a high of 3.7 percent in 1979. (The real rate of interest is the current nominal rate of interest minus the current rate of inflation.) For the 1970's, the real interest rate was well below the long-term average rate of 3-4 percent.

As a result farmers purchased assets, expanded or refinanced their operations with relative ease, which helped the rapid rise of land values. However, in the 1980's, restrictive monetary policies caused substantial increases in nominal and real interest rates. Declining commodity prices, rising interest rates and declining market values of farm assets made many farmers unable to finance their operations adequately. Farm bankruptcies rose dramatically during the 1980's.

For the 1980's, the overall demand for agricultural credit will remain stable. Land values will continue to decline in real terms. Due to the relatively high cost of credit, few farmers will buy land and buildings to expand. They will be less willing to go into debt to acquire intermediate-term assets such as machinery and equipment. As farmers reduce their debt loads, they will prefer cash discounts and will turn more to banks and similar financial institutions for lower priced credit.

According to a recent survey by the Farm Credit Corporation of Canada, the farm debt is carried mainly by the young farmers, who produce one-half of the total farm output. In Ontario this high-debt, low-equity group, who make up one-third of the total, carry 84.5 percent of the farm debt, and account for 53 percent of total farm sales. In 1983 they invested an average of $32,000 into their operations, some $10,000 more than the middle equity third.

Because of the unique and changing credit needs of agriculture, the financial instruments currently available are not best suited to serve farmers or to promote optimum growth. New and innovative mechanisms may have to be developed.

Pesticides

Ontario pesticide prices are up an average 8 percent over 1983. Expanded corn and soybean acreages have resulted in a 4 percent increase over 1983 consumption. Agricultural chemicals used in Canada are manufactured in either the U.S. or Europe, so that prices are affected by the condition of the Canadian dollar. No shortages of individual chemicals have been reported. Supplies for 1985 should be sufficient.

Land

According to a Farm Credit Corporation survey, land values in 1983 were down 7 percent from 1982. During the past six months, Canadian land values appear to have stabilized or risen in most areas.

The demand for land is expected to be flat for the next 1-2 years, with perhaps a very modest increase in values, depending on farmers' perceptions of its income-generating capacity. Urban demand and the incidence of foreign purchase could exert upward pressure.

Feed

Livestock feed prices in 1985 are expected to decline, due mainly to a large corn crop in the United States, Ontario and Quebec, and the continued use of wheat as a livestock feed. The demand for feed will soften, as livestock numbers decline. In Ontario, poultry is expected to increase, hog marketings to remain stable to slightly lower, dairy cattle numbers to remain constant, and beef production to be lower.

In 1984, the protein meal market incurred a weak livestock and poultry demand and excessive supplies of high protein substitute grain (wheat). Therefore soymeal prices were flat. In 1985, soymeal prices are expected to decline because of excessive oilseed meal supplies and a continuing weak demand in the livestock sector.

Total consumption of commercially prepared feeds will decline as poultry numbers increase but beef decline and hogs remain stable. Also, on-farm mixing of feeds may further reduce feed sales.

Fertilizer

Compared to last year, nitrogen and phosphate prices should remain firm. Phosphate producers are attempting, without success, to increase prices. Producers face short supplies of sulphur, an important ingredient in phosphate fertilizers. However, this should not affect retail prices.

World demand for fertilizer in 1984 is expected to grow by 6 percent with annual increases of 4 to 5 percent throughout the 1980's. Production of phosphate and potash slightly exceeds demand, while nitrogen supplies and demand are in balance.

FARM INCOME

Situation

Since 1981 the price increases charged to farmers have been below the general inflation rate with some notable exceptions (eg. long term credit and artificial insemination). However, prices received by farmers have increased less than inflation too. Many farmers are better positioned now than in 1981 because they have adapted their practices to the higher cost of refinancing and are using better management.

Ontario total cash receipts from farming for 1984 are estimated at $5.3 billion dollars, an increase of 7 percent over 1981 and 6 percent over 1983 (Table 2). During the same period realized net income at $1.0 billion dollars increased by 12 percent over 1981 and 11.5 percent over 1982. Realized net income does not take account of changes in farm inventories. (In 1984 corn and hog inventory will likely be up, tobacco down.) The effects of increased realized net income have been reduced by inflation.

The increases in farm cash receipts have differed by commodity. For example, total crop receipts are 6.5 percent higher than last year. Receipts from potato production are projected at 9.5 percent higher than 1983, but down 6 percent from 1981. Prices for potato producers will flatten in 1985 due to increased production in the U.S., Quebec and the Maritimes. Cash receipts to Ontario tobacco growers were 24 percent higher than 1983, but down 15 percent from 1981. Tobacco receipts will continue to fall as producers face declining world consumption and increased international competition. A 20 percent cutback in production this year has increased overhead costs per unit of tobacco. Soybean cash receipts have increased steadily since 1981, up 50 percent over that year and 1.5 percent over 1983. Cash receipts from vegetables are projected to be 14 percent higher in 1984 than 1983, assuming normal production levels and steady prices.

Hog marketings during the first half of this year were up 6 percent in Ontario over the same period in 1983. Index 100 hog prices at Toronto stockyards have steadily improved since the fourth quarter of 1983. Cash receipts from hogs are expected to be $43 million higher for 1984, an increase of 7 percent over 1983. Cash receipts for cattle and calves are forecast at $1.2 billion for 1984, up 6 percent from 1983. Profits are up for most beef producers, compared to 1983. Beef prices are up some 7 percent, but compared to the 1979-1983 average price, 1984 prices have risen only 5 percent. A 6 percent increase is also projected for dairy products in 1984. Increased milk production and higher prices will cause cash receipts to reach $900 million. A further $88 million will be paid as dairy supplementary payments. Overall profitability will likely remain at this year's level.

Receipts from poultry and eggs are projected to increase by 6 and 3 percent respectively. Firm prices and lower feed costs are expected to help improve profitability in 1985. All poultry farmers, especially chicken producers, made profits this year.

Outlook

Plantings of corn and soybeans have increased. At harvest, yields appeared average to above average. The high spring prices have dwindled. Price increases during the marketing year will be in line with storage costs. Crop developments or unforeseen political events in the southern hemisphere could change price levels. The consumer's changing demand for livestock and poultry products adds to the uncertainty. The profit picture for hog producers should continue to improve in 1985, due mainly to lower feed costs and somewhat higher prices. The beef producers' profits should go up in 1985 because of improved prices and lower feed costs.

U.S. production of non-citrus fruits is expected to be 5 percent higher, with fruit prices firm. Sharply reduced supplies of oranges, and concentrated orange juice should provide relief for Ontario apple and grape growers.

Throughout the 1980's the farming sector will be required to adjust to more realistic asset values, increased credit costs, and a shifting demand for food products. Many farmers still face cash flow problems, caused partly by expansion and increased indebtedness in the 1970's and early 1980's. If interest rates rise, farmers may not expand livestock production during 1985.

Table 2. Income of Farm Operators from Farming Operations in Ontario, 1981-1984

	1981[r]	1982[r]	1983[r]	1984[P]
		- $'000 -		
1. Cash Receipts	4,915,118	4,912,318	5,018,521	5,329,714
2. Income-in-kind	70,854	74,528	67,989	69,376
3. Supplementary Payments	50,133	20,329	—	—
4. Realized Gross Income (1 + 2 + 3)	5,036,105	5,007,175	5,086,510	5,399,090
5. Operating & Deprec. Charges	4,135,467	4,185,745	4,181,194	4,388,013
6. Realized Net Income (4-5)	900,638	821,430	905,316	1,011,077
7. Value of Inventory Changes	-36,452	-7,714	-93,662	n.a
8. Total Gross Income (4 + 7)	4,999,653	4,999,461	4,999,848	n.a
9. Total Net Income (8-5)	864,186	813,716	811,654	n.a

P Projection
r Revised
n.a Not available
Source: Statistics Canada

Table 3. Farm Price Outlook for Major Commodities, 1984:IV to 1985:III

	Quarter			
Commodity	**84:IV**	**85:I**	**85:II**	**85:III**
A1,2 steers ($/cwt)	83.86	86.89	87.92	86.91
Index 100 Hogs ($/cwt)	72.75	75.78	77.81	78.82
Chicken($/kg)	1.16	1.14	1.12	1.12
Turkey ($/kg)	1.51	1.48	1.46	1.46
Eggs ($/doz)	1.02	98	98	1.00
		- $/tonne -		
Grain Corn (Chatham area)	115-130	120-135	125-140	130-150
Barley	120-130	125-140	130-145	130-150
Soybeans	260-280	265-285	270-290	275-305
		- $/hectolitre -		
Fluid milk price	49.48	52.53	52.53	52.53
Industrial milk target support price	43.83	43.83	45.46	46.47

Grains and Oilseeds

COARSE GRAINS

The world coarse grain market has been extremely volatile. Ending stocks relative to use, after building for several years, fell between the 1982-83 and 1983-84 crop years.

The high U.S. loan prices for corn and large producer participation in the 1983 American feed grain program (PIK) caused world coarse grain prices to strengthen early in 1983. Prices rose into the fall of 1983 as a result of greatly reduced global production (Table 4). Coarse grain prices continued to rise in 1984, although excessive global supplies and weak global demand of wheat limited those price increases.

In 1984, Ontario cash producer prices for the #2 CE corn in Chatham trended up from $150/tonne in the first quarter, to $170/tonne in the second quarter and to $175/tonne in the third. By comparison, corn prices in the fall of 1982 were as low as $84/tonne.

Situation

Global stocks as the 1984-85 crop year begins are estimated at 70.1 million tonnes, down 49 percent from 1983-84 and equal to 9 percent of utilization (Table 5). During the past 5 years, the global stocks-to-use ratio has averaged over 13 percent, so that present stocks are tight.

Table 4. Coarse Grain Production in Major Producing Regions, 1981-82 to 1984-85

	1981-82	1982-83	1983-84	1984-85	% Change 1984-85 vs 1983-84
		- million tonnes -			
U.S.	246.6	250.7	136.7	233.4	+ 70.7
West Europe	87.9	93.5	86.1	97.8	+ 13.6
China	80.8	86.0	92.4	92.3	-0.1
USSR	72.0	86.0	105.0	86.0	-18.1
East Europe	64.5	71.8	67.3	67.5	+ 0.3
India	30.6	27.9	32.9	31.5	-3.7
Canada	26.0	26.7	21.0	21.9	+ 4.3
Brazil	23.4	19.9	21.5	23.0	+ 7.0
Argentina	18.4	18.2	18.3	18.5	+ 1.1
South Africa	8.8	4.5	5.2	9.8	+ 88.5
Australia	6.6	3.9	10.0	7.8	-22.0
Other	103.2	92.3	93.1	95.9	+ 3.0
World	**768.8**	**781.4**	**689.5**	**785.4**	**+ 13.9**

Source: USDA, September 1984 (and previous Crop Report)

The U.S. reduced its coarse grain stocks from 97.3 million tonnes, at the start of the 1983-84 crop year (70 percent of world stocks), to 31.7 million tonnes at the start of the 1984-85 crop year (45 percent of world stocks). Year-end stocks for 1983-84 are estimated at 16 percent of use compared with a 26 percent average for the past five years. Furthermore, stocks of coarse grain in both the Farmer Owned Reserve and Commodity Credit Corporation programs — that is, stocks of grain withheld from the market — have been reduced considerably (Table 5).

Canadian stocks of coarse grains at the start of the 1984-85 crop year stand at 4.1 million tonnes, down 53 percent from 1983-84, reflecting last year's short crop. Ontario stocks of grain corn stand at 758 000 tonnes, down 40 percent from last year and the lowest they have been, relative to use, since 1973-74. Old crop corn prices in

Table 5. Global Supply and Disposition of Coarse Grains, 1981-82 to 1984-85

	1981-82	1982-83	1983-84	1984-85	% Change 1984-85 vs 1983-84
		- million tonnes -			
Beginning Stocks	**83.5**	**112.7**	**138.4**	**70.1**	**-49.3**
Production					
U.S.	246.6	250.7	136.7	233.4	+ 70.7
Rest of World	522.1	530.7	522.8	552.0	-0.1
Total	768.8	781.4	689.5	785.4	+ 13.9
U.S. share (%)	(32.1)	(32.1)	(19.8)	(29.7)	+ 50.0
Supply	852.3	894.1	827.9	855.5	+ 3.3
Use	739.6	755.7	757.8	774.2	+ 2.2
Ending Stocks	**112.7**	**138.4**	**70.1**	**81.3**	**+ 16.0**
(as a % of use)	(15.2)	(18.3)	(9.3)	(10.5)	+ 12.9
U.S. Ending Stocks					
Free	17.5	16.6	7.5	17.2	+ 129.3
FOR[1]	39.7	47.2	16.7	18.7	+ 12.0
CCC[2]	8.9	33.5	7.5	7.8	+ 4.0
Total	68.2	97.3	31.7	43.7	+ 37.9
(as a % of World)	(60.5)	(70.3)	(45.2)	(53.8)	+ 19.0
Ending Free Global Stocks	64.1	57.7	45.9	54.8	+ 19.4
(as a % of use)	(8.7)	(7.6)	(6.1)	(7.1)	+ 16.4

1 Farmer Owned Reserve Stocks
2 Commodity Credit Corporation Stocks
Note: Coarse grains include: corn, sorghum, barley, oats, rye, mixed grains and millet.
Source: USDA, September 1984 (and previous) Supply Demand Estimates.

Chatham peaked at $180 tonne early in September reflecting the tight global and local stock conditions. However, new crop corn prices, reflecting the market's current expectation of 1984-85 supply and demand conditions, globally and locally, fluctuated in the $125-128 tonne range. Old crop prices are being forced down by new crop prices. Barley prices in Ontario FOB shipping points have stabilized at $129 tonne, up from $125 tonne early in August. Although Ontario's 1984 barley crop of 612 000 tonnes is up 16 percent from last year, reduced production forecasts for western Canada and USSR caused this rally.

Outlook

Global production of coarse grains in 1984-85 is forecast at a record 785.4 million tonnes, up 14 percent from 1983-84 and marginally above the previous record crop of 1982-83 (Table 5). Supplies for 1984-85 are forecast at 855.5 million tonnes, up 3 percent from last year, but 4.3 percent less than the record global supplies of 1982-83 (Table 5). Supplies of both coarse grains and wheat are forecast to be 3 percent higher then in the 1983-84 crop year and equal to record supplies of 1982-83. These forecasts would result in larger supplies next fall than now, given current forecast of utilization.

Coarse grain supplies in the U.S. for 1984-85 are forecast up 13 percent from 1983-84, reflecting a normal corn crop, currently forecast at 191.8 million tonnes, up more than 80 percent from last year.

Canadian supplies of coarse grains for 1984-85 are forecast at 24.6 million tonnes, down 14 percent from last year, reflecting the 1984 drought reduced barley, oat and rye crops in western Canada. In Ontario, a record corn crop of 5.4 million tonnes is forecast for 1984. This would put 1984-85 domestic supplies at 6.1 million tonnes, up 3 percent from last year but 2 percent below record domestic supplies of 1981-82. In 1984-85, Quebec and the Maritimes should be a strong market for Ontario corn, and to a lesser extent Ontario barley. Although record feed grain crops in Quebec and the Maritimes will likely reduce total out-of-province feed grain requirements to an all time low, western Canada — the major source of out-of-province supplies — will be hard pressed to service that market in the coming crop year. This is caused by the drought reduced coarse grain crops in western Canada, the high price of barley in the export market and the difficulty that the Canadian Wheat Board has in meeting export commitments.

Therefore, Ontario and the U.S. will have to supply more grain to Quebec and the Maritimes than usual. The feed freight assistance on Ontario corn and barley to Quebec and the Maritimes, together with the weak Canadian dollar vis-a-vis the U.S. dollar will favour Ontario as the alternative source.

Export potential for Ontario corn in 1984-85 will depend upon: 1) The American Canadian exchange rate, which should continue to favour Ontario exports; 2) The extent of domestic production shortages of coarse grains in the USSR compared with production increases in the U.S. and western Europe and the disruptive influence this may have on international trade flows (currently unknown); and 3) Crop developments in the southern hemisphere, most notably South Africa, Argentina and Brazil. Currently, production forecasts indicate larger crops for these countries in 1984-85, which is bearish for Ontario corn exports.

Total out-of-province shipments of Ontario corn should rise in 1984-85, although not to the record shipments of 1981-82. The producer price for #2 CE corn in Chatham is forecast to range between $115 and $130 tonne during the last quarter of 1984, before gradually increasing into 1985. The next major price movement can be expected as news unfolds regarding crop developments in the southern hemisphere. The average producer price for barley FOB shipping point in Ontario will fall as Ontario and American corn crops are harvested, possibly decreasing to $125 tonne before increasing into 1985. An abundance of corn relative to barley in 1984-85 means barley will be priced at a premium relative to corn.

OILSEEDS

The world oilseed market experienced volatile price conditions during the 1983-84 crop year, mainly from weather-induced changes in the global soybean crop, soybean stock revisions by the USDA and changing prospects for the 1984-85 global oilseed crop.

As the 1983-84 crop year began global soybean stocks were 17.0 million tonnes, or 19 percent of the previous year's use — comfortable by historical standards (Table 6). However, as the 1983 growing season developed in the northern hemisphere, global supply estimates had for 1983-84 to be lowered.

The 1983 American drought reduced soybean crop was the main cause of the tight global oilseed market conditions at the start of the 1983-84 crop year. However, prices began to decline with news of favourable planting and growing conditions in Brazil and Argentina. In addition, high global wheat supplies led to the substitution of wheat for corn in feeding. Since wheat has almost twice as much protein as corn, the demand for (high protein) soymeal was reduced, causing a further decline in the soybean price.

In the meantime American stocks of soybeans fell to extremely low levels. Year end stocks were revised down to 2.9 million tonnes from 4.0 million tonnes. As a result, soybean prices rallied briefly this spring to ration demand. The occasional news release indicating the potential for a weather-reduced 1984 U.S. crop strengthened prices significantly. However, as the 1984 crop season progressed (northern hemisphere), it appeared that soybean (and oilseed in general) supplies would be up significantly from last year and would allow carry-out stocks to rebuild to normal levels.

In 1984, the Ontario cash producer price for #2 CY soybeans in Chatham has roller coasted from $340 tonne early in January, to $310 late in February, up to $390 tonne late in May before plummeting down to the $290 tonne level during the last quarter.

Situation

Global stocks of soybeans as the 1984-85 crop year begins stand at 11.2 million tonnes, down 34 percent from a year ago and equal to 13 percent of last year's use (Table 6). In the U.S., soybean carry-in stocks for 1984-85 are estimated at 3.0 million tonnes, or 6 percent of last year's use — extremely low by historical standards.

The Ontario producer price for soybeans in Chatham is estimated at $260 tonne, reflecting the development of the 1984 U.S. oilseed crop, recent upward revisions in American soybean stocks, and the fact that global production of each major oilseed is expected to increase in 1984-85 over 1983-84.

Outlook

According to oilseed production forecast and stock changes, crush levels and oil meal yields, global production of protein meal (44 per-

cent protein equivalent) in 1984-85, will be up for all except flaxseed (Table 7).

Production of edible oil from each major oilseed except canola is expected to be up for 1984-85 (Table 8). The increase in both oil and meal production expected in 1984-85 will keep oilseed prices depressed unless (i) demand rebounds more than anticipated, primarily in the meal market, or (ii) the southern hemisphere crops are below levels currently expected.

Ontario's soybean crop will be a record 936 000 tonnes, 31 percent above last year's crop, putting domestic production around 80 percent of domestic crush requirements. Ontario soybean prices will range between $255 and $275 tonne during the last quarter of 1984 before gradually increasing into 1985. Adverse or favourable weather conditions in South America will probably cause the next significant price changes.

Table 6. Global Supply and Disposition of Soybeans, 1981-82 to 1984-85

	1981-82	1982-83	1983-84	1984-85	% Change 1984-85 vs 1983-84
			– million tonnes –		
Beginning stocks	**16.2**	**14.9**	**17.0**	**11.2**	**-34.1**
Production					
U.S.	54.1	59.6	42.6	55.2	+ 29.6
Rest of World	31.9	33.7	37.3	38.5	+ 3.2
Total	86.0	93.3	79.9	93.7	+ 17.3
Supply	102.2	108.2	96.9	104.9	+ 8.3
Use:					
Crush	74.4	77.9	73.1	75.9	+ 3.8
Total	87.3	91.2	85.7	89.3	+ 4.2
Ending Stocks	**14.9**	**17.0**	**11.2**	**15.6**	**+ 39.3**
(as a % of use)	(17.1)	(18.6)	(13.1)	(17.5)	
U.S. Ending Stocks	6.9	9.4	2.9	7.1	+ 136.7
(as a % of World)	(46.3)	(55.3)	(25.9)	(45.5)	+ 70.4

Source: USDA, September 1984 and previous Supply Demand Estimates

Table 7. Change in Oilseed and Meal Production, 1983-84 to 1984-85

Crop	Oilseed Production % Change 1984-85 vs 1983-84	44% Protein Meal Equivalent % Change 1984-85 vs 1983-84
Soybeans	+ 17.3	+ 4.5
Cottonseed	+ 12.9	+ 12.5
Sunflower	+ 12.0	+ 10.2
Flaxseed Linseed Meal	+ 10.3	-3.8
Copra	+ 9.7	+ 9.2
Canola (rapeseed)	+ 6.8	+ 1.9
Palm Kernel	+ 4.9	+ 4.9
Peanuts	+ 4.0	+ 3.3
Fish	n.a	+ 1.8
TOTAL	**13.2**	**+ 5.0**

Source: USDA, September 1984 Crop Report

Table 8. Change in Edible Oil Production, 1983-84 to 1984-85

Type of Oil	Edible Oil Production % Change 1984-85 vs 1983-84
Olive	+ 21.4
Copra	+ 12.5
Palm Kernel	+ 12.5
Sunflower	+ 10.7
Cottonseed	+ 8.8
Palm	+ 7.9
Soybean	+ 3.1
Peanut	+ 2.9
Canola (rapeseed)	-1.9
TOTAL	**+ 5.8**

Source: USDA, September 1984 Crop Report

Livestock and Poultry

CATTLE

Situation

The liquidation phase of the North American cattle cycle that started in 1982 is continuing. On July 1, total cattle and calves were down 1 percent in the U.S., 3 percent in Canada and 6 percent in Ontario from a year earlier. Ontario's beef cow inventory was down 2 percent, steers 11 percent. An important factor in the steep decline in Ontario's cattle and calf inventory was the 30 percent decline in feeder cattle and calves shipped from western Canada during the first half of 1984.

Although slaughter cattle prices strengthened, low returns for the past four years are still causing cattle numbers to decline. Higher cattle prices have not greatly improved the profitability of cattle feeding, since they have been offset in part by increased pre-harvest feed costs and higher interest rates. Slaughter steer (A1,2) prices in Toronto will average $84-86 cwt. this year, up from $79 cwt. in 1983. This is the first noticeable price improvement since 1979 when slaughter cattle prices averaged $80 cwt. It results from lower beef supplies rather than increased consumer demand for beef. Canadian beef consumption is expected to decline from 40 kg in 1983 to 39 kg per person in 1984, the lowest since 1970.

In 1984, imports of dressed beef grew by over 20 percent while dressed beef exports remained level. However, Canada still has a trade surplus in beef and cattle. Canada's global meat quota will likely be filled this year. Beef imports from the U.S., Ireland and Nicaragua have increased the most. The Canadian Cattlemen's Association is very concerned about the Irish beef imports, subsidized by the EEC, but cannot get the federal government to limit them.

Feedlot operators had positive margins for most of 1984. However, increased feed costs and interest rates reduced net returns during the first half.

Outlook

North American beef production will decline again in 1985, as a result of the beef cow culling in recent years. The USDA expects U.S. beef production in 1985 to be down 3 percent from 1984. The decline in Canadian beef production is expected to be slightly larger. In response to lower beef and pork supplies and improved consumer income,

Toronto steer prices are expected to climb to $87-92/cwt. during the first half of 1985. Lower feed costs will also help improve the profitability of cattle operations to at least mid-1985. The North American cattle inventory will not likely be rebuilt until late 1985. Enormous stocks of beef in the EEC will continue to dampen world beef prices in 1985, although world beef supplies will be close to year-ago levels. Reduced Canadian supplies and improved North American beef prices will fill the global meat quota for 1985. Import quotas may be expected late in 1985. In the U.S., analysts expect poultry production, already greater than pork, to exceed that of beef by the early 1990's.

HOGS

Situation

Ontario's hog production has not followed the U.S. hog cycle since the late 1970's, when the last major expansionary phase ended. Instead, Ontario's hog producers have maintained their production levels during periods of low returns.

In the U.S. hog producers responded to low hog prices and high feed costs last fall and winter by liquidating their breeding herds. However, it was not until the spring of 1984 that U.S. hog marketings fell below year earlier levels. U.S. pork production is expected to be down 5 percent during 1984, while Ontario's is expected to be up 3 to 4 percent. Pork producers have faced stiff competition for the consumer's dollar from chicken growers in recent years. Health concerns over the fat content have also weakened demand. Canadian per capita consumption of pork in 1984 is expected to be 1-2 kg below the 1983 level of 28.6 kg.

The Toronto hog price increased from $67 cwt. in the first quarter to $79 cwt. in the third quarter. However, hog prices declined sharply in the fall when U.S. hog production did not decline as much as first predicted. Consumer demand was also weaker in the fall. The large movement of frozen pork from cold storage also dampened market prices in summer and fall. The USDA reported that on September 1, frozen pork stocks stood at 122 482 tonnes, down 22 percent from August but 26 percent above year before levels.

Canada is a large net exporter of pork, after being a net importer in the late 1970's. In 1984, Canada will export 30 percent of its hog production (71 percent as dressed pork and 29 percent as live hogs). Live hog exports have increased enormously this year as a result of much higher U.S. market hog prices. Canadian live hog exports to the U.S. will approach 1 million head, with those from Ontario between 400,000 and 500,000 head. The U.S. is by far the largest market for dressed pork. The U.S. market will become especially important since Canadian pork exports to Japan are expected to be down 40 percent as Denmark regains its large share of the Japanese market.

Hog operations were close to break even levels in 1984. The improvement in hog prices was partly offset by high pre-harvest feed costs and increased cost of credit.

Outlook

In Ontario, hog marketings will be close to year ago levels to mid-1985. U.S hog slaughter is expected to be down 7-8 percent during the last quarter of 1984 and down 3-4 percent during the first half of 1985. Pork from cold storage will contine to depress prices until the stocks reach normal levels, perhaps by Christmas. In 1985, pork prices will be strengthened by the continued reduction in beef supplies and increased consumer incomes; however, increased chicken production will have a dampening effect. Toronto hog prices are expected to be in the low $70's/cwt. during the remainder of 1984, and rise to $78-82/cwt. during the third quarter of 1985. Recent decline in feed costs will improve the profitability of hog operations.

U.S. hog producers are concerned about imports of Canadian pork. The National Pork Producers' Council alleges that subsidized Canadian live hog and pork imports are damaging the U.S. industry. Any limit to Canadian pork imports would seriously damage the Canadian industry since about a quarter of Canadian production will be exported to the U.S. in 1985.

DAIRY

Situation

During 1984 both the EEC and U.S. instituted measures to reduce milk production and thereby reduce their surplus stocks. The EEC has a milk quota system, and the U.S. a program to pay producers to cut back production. However, the magnitude of the surplus will plague the world market for two to three years. The declining world market price for butter and skim milk powder has led to higher levy charges for Canadian dairy producers to export surplus butter and powder. Attempts are now being made to increase domestic markets for both butterfat (butter, cheese) and solid non-fat products (skim milk powder). Domestic per capita consumption of skim milk powder has continued to decline, causing more solid non-fat to be exported, thereby increasing levy charges.

Outlook

On August 1, 1984 the target returns level for industrial milk shippers was increased by 1.9 percent. With the industrial milk sector under the 6 percent wage and price restraint program, a further increase in the target returns level cannot occur until April 1, 1985. The price of fluid milk may increase during the first quarter of 1985. The milk sector needs solutions for sharing industrial milk quota among the provinces. British Columbia left the national industrial milk marketing plan at the beginning of the 1982-83 dairy year and has not returned.

EGGS

Situation

The egg industry is still struggling with slow to no growth. The per capita consumption remained static or declined slightly during the last decade. The increase in total consumption came from population growth, but in the past two years table egg disappearance has not kept pace with population growth and abundant supplies have raised the cost of the CEMA surplus disposal program, resulting in substantial indebtedness by the Agency. This has required a significant cut-back in production and an increase in producer levies to 9¢/dozen. The reduction in layer numbers raises overhead costs per dozen eggs produced, although hen productivity has continued to improve to a rate of lay of 20.77 dozen eggs per year.

A 5 percent quota cut at the beginning of 1984 caused weekly egg production in Canada to drop below the previous year. Imports remain low for 1984.

Table egg disappearance, however, has lagged most of the year by about 2 percent relative to last year. Therefore, the surplus-to-table market has remained relatively high. However, sales to Canadian pro-

cessors have been much higher than last year with a strong demand for egg products and lower prices for breaking eggs (set on the basis of egg prices in the U.S.) As a result, fewer eggs had to be exported.

Higher production costs caused egg prices to remain above year ago levels, peaking in August at $1.07/doz. for Grade A large in Ontario and slowing consumption.

Outlook

A decline of 4-5 percent in egg production in August and September indicates that the quota cut has taken effect. For 1984, egg gradings are likely to be about 4 percent lower than 1983. For the whole of 1984, table egg disappearance is expected to be 1-2 percent below 1983.

With reduced output, surpluses to table market should decline substantially and remain low for the remainder of 1984. This decline started to show in September. At Christmas, domestic egg supplies may be tight and imports will increase as usual at that time.

Egg prices should trend downward during 1985 as feed costs will decline. In 1985, egg supply is expected to be in closer balance with demand, and table egg disappearance should approximate the 1984 level representing a small per capita decline and a continuing negative trend.

As the CEMA debt for surplus removal has remained higher than anticipated, the levy will continue at 9 cents through most of 1985. A further quota cut is not likely in 1985, since supply-demand prospects have improved.

CHICKEN

Situation

After slow growth compared to the U.S., the Canadian chicken market took off in 1984, especially in Ontario. Specialized fast food chains caused an exceptional expansion in demand with new products in further processed form.

The CCMA had to increase the quota significantly each quarter to catch up with demand. The final quota for 1984 was raised to 413.3 million kg, up 10 percent over 1983. However, the CCMA response and the necessary production adjustment were too slow so that shortages occurred, resulting in imports of more than 10 percent of consumption. Such imports could have been reduced if Ontario producers had been allowed to increase their production.

Ontario chicken producers have enjoyed exceptionally good returns, with live prices at or above the cost of production plus significant premiums in the past 10-12 months. Processor and retail prices have strengthened considerably over year ago levels, and processors' margins have been quite satisfactory.

Outlook

The quota for the fourth quarter of 1984 is 101 million kg, an increase of 10 percent over the previous year. Indications are that third quarter production in some provinces lagged relative to allocated quota, due partly to production of lighter birds. If producers make this up, and fill quota for the fourth quarter, supplies could be abundant leading to a soft market for the remainder of 1984.

A strong demand is expected in 1985. A growth of 10-15 percent is projected in further processing; fast food outlets foresee a 5 percent increase, and retailers indicate a significant potential for increased sales if supplies are available. Accordingly, the CCMA has set a first-period production quota of 92.5 million kg. This period of 11 weeks, starting January 1, 1985, will see an increase of 13 percent over 1984 production. The increase is to replace supplementary imports with domestic product and eliminate premiums paid to producers.

Ontario applied to the CCMA for a substantial increase in quota for 1985 to meet increased market requirements based on the fact that (i) a very large proportion of the supplementary imports in 1983 and 1984 came into Ontario, (ii) the growth in further processing has occurred mostly in Ontario and (iii) the sector needs to procure its requirements from an efficient and close supply source. However, the CCMA reduced Ontario's share for 1985 to 33.6 percent, compared with higher shares in previous years. This will perpetuate the supply shortages in Ontario and cause significant supplementary imports.

The overall outlook for chicken in 1985 is optimistic. The industry has potential for substantial long-term growth considering that the per capita consumption of chicken in Canada is considerably lower than in the U.S. Expectations for continued expansion in Canada are realistic. There is high potential for improvements in processor productivity, which may result in some restructuring of the primary and further processing sectors.

TURKEY

Situation

The turkey industry has been unable to increase its share of the total meat market. Per capita consumption has remained at 4.0 to 4.3 kg per year for the past decade. The industry has lately achieved a satisfactory balance between supply and demand, leading to market stability and normalization of returns in the production marketing process.

Due to a delay in finalizing the 1984 quota, turkey slaughter lagged. Disappearance also lagged at about 4 percent lower than the previous year to the end of August. Storage stocks on September 1 were 15.6 percent lower than the previous year. In 1984, live turkey prices in Ontario have been close to cost-of-production and substantially higher than 1983. The turkey industry is entering the season of heaviest marketing with a favourable supply-demand balance.

Outlook

Up to mid-September the turkey slaughter was 3.2 million kg or 5 percent below the previous year. Although part of this shortfall will be made up in the fourth quarter, it is likely total 1984 production will be lower than 1983 and below 1984's quota. The level of year-end inventories should be satisfactory and close to that of last year. Prospects for 1985 appear optimistic, with a preliminary quota of 95.255 million kg and reduced feed costs expected.

Fruit, Vegetables and Tobacco

FRUIT

Situation

The U.S. apple crop is expected to be the second largest ever. Production in EEC countries is 11 percent higher than in 1983. In Canada, the apple crop is down 5 percent to 24.1 million bushels. Production is down in Ontario and B.C., but up significantly in Quebec. The Ontario

crop decrease is estimated at 10-15 percent below 1983 levels. Red Delicious are down 14 percent, Spy 32 percent, and MacIntosh 4 percent. Canadian stocks of apple juice are up over 1983 levels.

Wine sales in Canada and Ontario are suffering from European competition and falling European currency values. Grape juice sales have levelled off. Wineries and juice processors carry larger inventories from the 1983 vintage crop. The 1984 Ontario grape crop may reach a record 90,000 tons.

Ontario tender fruit production is estimated down 13 percent from 1983. Marketing has been favourable. Stocks of processed tender fruit were considerably lower than in 1983. Small fruit production was up slightly from 1983 because of expanded pick-your-own operations.

Outlook

The abundant apple supply in Europe could put downward pressure on export markets during 1984-85 and the above average U.S. crop may also put pressure on prices of Ontario apples. The low world price of concentrate is affecting the juice price. Ontario's good quality apple crop should move well. The high price of citrus fruit will help apple sales. The price for juice apples was set on September 25, at $100 ton picked up at the farm.

The federal government will help to stabilize the market by purchasing 30,000 tons of Ontario grapes to be reintroduced when market conditions improve. The price of processing grapes to the grower is down 6 percent from last year.

There will be very little carryover of the 1984 processed tender fruit crop.

VEGETABLES

Situation

The U.S. potato crop will be up by 4 percent or 11.7 million cwt. over 1983. In Canada, weather conditions lowered yields in Ontario and New Brunswick and raised them to above average in Quebec and P.E.I. Prices were strong until mid-August when Quebec potatoes forced bulk prices down to $5.00 per cwt.

U.S. acreages of carrots, celery, sweet corn and tomatoes were up from a year earlier. Supplies were generally good, keeping retail prices seasonally down.

In Ontario, fresh market tomato acreage was down 7.6 percent from 1983, with good quality product and improved prices. The onion crop is good. Carrot supplies are plentiful, with acreage up 8 percent over 1983. With the expanded storage facilities, provided under BILD, Ontario growers realized good returns from inventories during the 1983 freeze in the southern U.S. Whole pack markets for processed vegetables have strengthened. Processing tomato acreage contracted in 1984 at 32,000 acres is up considerably over 28,000 acres in 1983.

Four Ontario processors used BILD grants, which resulted in additional acreage for tomato paste production. Stocks of tomato products should be manageable in 1984-85.

Outlook

In Ontario, potato prices will be under downward pressure from Quebec potatoes. Wholesale onion prices may fall below 6-7 cents per pound due to large supplies elsewhere. Storage facilities for carrots and onions may benefit growers.

Greenhouse tomato and cucumber volumes will equal 1983 with average prices showing no improvement. Most growers are producing only one crop per year. Unknown energy costs and competition from southern U.S. and Mexican tomatoes and cucumbers will continue.

Expansion of processing crops will be mainly tied to exports as domestic consumption holds steady.

TOBACCO

The 1983 U.S. flue-cured tobacco production is expected to total 791 million pounds, 4 percent below last year, 21 percent below 1982, and the lowest since 1943. Malaysia, Zimbabwe, Brazil, South Korea and India report good crops. Ontario's 1984 flue-cured tobacco crop is targeted at 179 million pounds, down 21 percent from the 1983 crop of 215 million pounds, due to uncertain export markets and declining domestic consumption.

Welcome and Opening Remarks

DENNIS R. TIMBRELL
Minister
Ontario Ministry of Agriculture & Food

It's good to see so many familiar faces here and I'd like to welcome you. This is of course my second opportunity to address this very broad cross-section of the Ontario agriculture and food industry; an industry which is of major importance to Ontario's economy. You represent well over $10 billion worth of business to the economy of the Province of Ontario. You employ one in five Ontarians.

When I travel around Ontario and mention these facts, people are surprised. Some of them are astonished. Urban Ontario consumes your products daily but they are more likely to know about the tourism or auto industry than about farming or food processing.

You, I fear, are in fact taken for granted by the people of Canada. I want to talk to you about the need for better understanding between your industry and all Ontarians.

When I came to the Ministry of Agriculture and Food, I had at least a little knowledge of the industry. I did not have to be taught its importance. Yet, it wasn't long before I realized that not everybody in this province shares that perception. I kept encountering knowledgeable individuals who literally don't know where their food comes from.

In human terms your industry represents sustenance itself. All food producing societies must be conscious of this role. We must face the challenges first of providing food and second of how it can be paid for by developing nations. While the population of the world grows daily, it's ability to feed itself diminishes daily.

We must examine the question of the politics of food and make some very firm moral determinations in our own minds, as a producing society. There are major reasons why your industry must be more fully understood by our society as a whole.

I have always held a strong personal belief that most of the people of this Province either live in small communities or wish that they did. The scale of urban society is simply too overwhelming for most of our people. We identify with smaller communities more readily. Within my own constituency of Don Mills, there are many distinct small communities for which people fight tooth and nail; to protect them, to preserve them, to maintain that small town identity that is so important.

Distinctions between urban and rural ways of life are real. But they are not as great as some people might imagine. As a province facing the demands of a new era of technology, the communications revolution and serious economic changes, we must be conscious of our strengths and our unifying characteristics so that we can in fact face the future with consensus and with confidence.

I thing the Agri-food industry, particularly at the producer end of the spectrum, must speak out more forcefully for your industry. All across north America the rural population has been shrinking for decades. The reasons for this are many but at least one good one is your own success. With greater productivity, it simply takes fewer farmers to produce more food. But I dont't want to see you become victims of your own success. You're simply too important. You are in fact the bedrock of Ontario. Your industry is significant. Demand for your products is increasing. You are after all independent business men and women, taking very big risks.

Be recognized for this, speak clearly on issues of concern to both rural and urban Ontario. Speak more often, make yourselves understood, adopt more effective techniques of communications.

Changes are the norm today. Corporate and government actions affect your industry on a daily basis. You must be on top of these changes, influencing their direction for the sake of your own economic health.

I firmly believe the need for better communication between urban and rural Ontario is very real. I urge every one of you, to do everything you can to assist in that task. The result we should hope for, is an improved understanding of your industry's importance and its concerns, by all Ontarians.

BIOGRAPHY

DENNIS R. TIMBRELL

Mr. Timbrell has been Minister, Ontario Ministry of Agriculture and Food since February 13, 1982.

Mr. Timbrell taught at Don Mills Junior High School during the years 1967-70. He was elected Alderman, North York Council, December 1, 1969, and elected to the Legislature of Ontario for the Constituency of Don Mills, October 21, 1971. He was re-elected in 1975, 1977 and 1981.

He was appointed Parliamentary Assistant, Ministry of Colleges and Universities, September 20, 1973, appointed Minister-without-Portfolio, responsible for the Youth Secretariat, February 26, 1974, becoming the youngest Cabinet Minister in the history of Ontario; appointed Minister of Energy, January 14, 1975; appointed Minister of Health, February 3, 1977; appointed Minister of Agriculture and Food, February 13, 1982.

The Global Economy with Canadian Perspective

JOHN CRISPO
Professor of Political Economy
University of Toronto

THE WORLD SITUATION

The first consideration is the population explosion. Malthus is still stocking the world. We don't have effective birth control in any part of the world, except, perhaps, the most advanced parts.

World population is outstripping our capacity to feed it. Although millions are starving in Africa, unbelievable surpluses exist in more prosperous nations, yet seemingly there is no way to get the surplus to where it is needed because the starving people can't generate the money to buy our surpluses. The size of the need ought to create a golden era for food producers but it hasn't; something has broken down somewhere.

The Global Village is getting less global in a fundamental sense. There is, world-wide, a race between protectionism and recovery. As a result of the world recession and unemployment, we're seeing the same ugly protectionist forces as we saw in the 30's. Although Reagan resisted the worst aspect of the steel quotas, tariff and much more significantly non-tariff barriers can create serious trade bottlenecks. For instance, you can block agriculture movement with non-tariff barriers much more easily than you can with quotas and tariffs.

Already, some nations have cut off effective competition from other parts of the world.

In addition, there is the absolutely staggering third world debt. The IMF is saying to these countries, "Look, restrain yourself, cool off your economies, save more so you can pay off your debts." That means they have less to invest, less to consume and their economies are stagnating, which aggravates the problem. This situation put a lot of our banks in jeopardy. Both American and Canadian banks are over-extended in their foreign portfolios. They call them nonperforming loans. (They call a lot of the loans made to farmers nonperforming loans too.) That means no interest is being paid. The ramifications are serious; the whole world monetary system could break down.

THE U.S. DEBT

The mammoth U.S. federal deficit is another serious issue — people don't realize how serious it is.

Much of it is structural — it won't go away when the economy recovers. In fact, it will increase despite the booming economy. And that's because Reagan has promised the American people both guns and butter: in other words, increased defense expenditures and reduced taxes. This has put the U.S. into a quasi-permanent, serious deficit position.

This concerns the rest of the world because it keeps American interest rates so high that the world's capital flows there in huge amounts. Also, of course, the U.S. is still perceived, and rightly so, as the safest haven for capital.

The shift of capital into the U.S. is sucking money out of third world countries, raising their interest rates and making the repayment of their debts even more burdensome. So the United States is doing immense harm not only to itself but to the whole world.

THE CANADIAN SITUATION

Now in that context, the mess in Canada isn't that significant. We got a big deficit but our debt doesn't affect the rest of the world. A higher proportion of our debt is cyclical so that if the economy recovers, the deficit will go down. If unemployment fell to, say, 5 percent (the U.S. is about 6 now) the reduction in unemployment insurance payments would wipe out half the deficit.

However, the other half *is* structural, so some harsh steps are needed.

This country has to take some harsh medicine and that means cutting transfer payments because there isn't much else that can be cut. Nobody in this room, for example, needs family allowance or unemployment insurance or government pensions. We have to end universality. However, that would only save $5 billion. We still have to increase taxes.

Now, briefly, what is the Canadian challenge?

It is lack of competitiveness. There is no solution to anything, including unemployment, that doesn't come back to making this country more competitive. You can throw money at it, as the NDP would have us do. Just keep throwing it and throwing it and throwing it. It won't solve the problem. Throwing money at unemployment will aggravate it in the long run. If we want full employment, growth, a higher standard of living, and if we want to help those who are really in need, we must make this country more competitive.

We have to raise productivity and lower inflation. And competitiveness is the way to do it.

On the inflation side, we need sensible fiscal and monetary management. That's going to take a full term if not a couple of terms to accomplish. We also need to make sure that when groups pursue their self-interest, they do so in a competitive setting.

They shouldn't have undue advantages, such as government grants to bail them out. If group gets increases out of line with its peer groups, we should ask ourselves: did we give them an advantage they shouldn't have?

Let me pick on labour. We should evaluate wage and salary increases which are above the national average, on the basis of whether or not there is a shortage. If there is, then increases must continue until the shortage is taken up. If there's no shortage, then perhaps the labour relations act should be amended to prevent closed shops.

What we need, to control wages that are out of line, is a strategy aimed at abusive power so people can't unfairly rip-off the system,setting targets for others to shoot at, that the country can't afford. This policy should apply to labour, professional groups, farm groups, and industrial firms.

On the productivity side, we need to change investment incentives to give real rewards for people who make real investments instead of handsome rewards for paper shufflers and property shufflers.

We should reward the people who invest in business, plough back, sleep in the back room. If people build a business this way and sell it ten years later, let them sell it with no tax at all.

Paper shuffling doesn't create jobs, or growth; it just produces exorbitant profits for a few.

The only hope for Canadian productivity is to plug into the U.S. market. Canada makes no sense economically, with 25 million people strung out along a 4,000-mile border. Trade wants to go north-south, not east-west, whether we try to stop it or not.

Relations with the U.S. are critical to us. The Business Council on National Issues has recommended that we negotiate a trade enhancement treaty with the United States, and commit ourselves to free trade, on a phased-in basis. Otherwise we run the risk that our relative standard of living will decline. That will drive Canadians to throw in the sponge and say, let's join the United States.

AGRICULTURE

No industry on earth has more government intervention, quotas, regulations, subsidies, tariffs, than the agricultural industry. Two-thirds of the Common Market budget is agricultural subsidies.

Marketing boards, with price and supply management powers, defy the market. They have their place in advertising, price negotiations, and selling, but not in market control.

We should look at government intervention in agriculture, and remember that our salvation is being more competitive. Anything that detracts from competitiveness, detracts from everything we should be striving for.

Q. U.S. fruit and vegetables are ready for market a month earlier than ours. They ship into Canada and the consumers buy. When our produce comes on, consumers have filled their freezers and don't want anymore.

Do you have any comment on this?

A. I could say that economic theory suggests you shouldn't be in fruit production.

But there is a more basic problem. Let's say we went to a common market with the United States.

A comparative advantage, such as climate, is not an absolute advantage. It means relatively speaking, we'd be better off in this and Americans would stay in that. It might mean, however, that a lot of marginal land in Canada would go out of production.

On the other hand, we have encouraged people to farm this land, and we can't just pull the rug from under them without providing adjustment and transitional assistance. So, there is no easy answer.

Q. The Ontario farmer has an investment to revenue ratio of 15:1. The next major industry is about 9:1 and a lot average 7:1 and less.

The farmer has accepted a reduction in net income approaching 25 percent over five years. In productivity farmers have outstripped any other sector of the economy completely and they could blow any other farmers, from any other jurisdiction out of their own market.

Surely, your remarks would be better addressed to the UAW.

Our return, both with high investment and long hours has grown less and less in your marketplace. Unless we take collective action, those 85,000 little entrepreneurs in Ontario are going to fall victim to such organizations as Provigo, one agency that purchases 50 percent of all the goods in Ontario for food consumption.

That is the reality. We have to recognize that marketing boards are our classical countervailing force. They give us bargaining power.

Urban professors make continual attacks on marketing boards. Why don't you look at the entire picture?

Statistics Canada shows money earned on the farm in Ontario averages $2,095. Money earned off the farm is over $15,000. Farmers earn 87 percent of their income off the farm. Surely that tells us something.

A. I have no objections to a marketing board that brings producers together to bargain with processors. I have reservations where there are price and supply management policies.

With equipment and quota prices, and carrying charges, the only farmers who can survive are those with low mortgages, or their offspring who inherit the farm, and the quota, and the equipment, with no estate taxes.

BIOGRAPHY

JOHN CRISPO

John Crispo is Professor of Political Economy at the University of Toronto and an Associate of the Centre for Industrial Relations of which he was the founding director.

He graduated from the Massachusetts Institute of Technology with a Ph.D in industrial economics. He has combined research and teaching with other professional activities.

He was first Dean of the Faculty of Management Studies at the University of Toronto and has held a number of positions on Royal Commissions and special advisory bodies, including the Prime Minister's Task Force on Labour Relations, the Royal Commission on Labour-Management Relations in the Construction Industry and the Select Committee on Manpower Training.

The Role and Direction of the United States In the World Agri-Food System

PAUL WELLER, Jr.
President
Agri-Washington

No other topic, short of world peace and disarmaments, has such a far-reaching impact on the well-being of the human race, as does agriculture and food.

1985 will see an exhaustive review of United States agricultural policy, which will affect our direction for the rest of this century and have long-lasting impact on Canada and much of the world.

Our farm legislation expires on September 30, 1985. A new farm policy must be ready on that date. The debate officially opens in January, when the 99th United States Congress convenes. But actually it began early in 1984, when both the public and the private sectors laid the groundwork for the most extensive review ever undertaken of America's trillion dollar agricultural industry.

On October 9, 1984, some of us sat with Agriculture Secretary, John Block, and the Agricultural Director of his political campaign. Our subject was agriculture: What's best for the farmer? What's politically feasible? Where should public policy be taking us? This was only one in a long series of discussions aimed at finding the "right answer" to the agricultural policy dilemma.

The dilemma, and I think we share it with you, is overproduction. We spend $20 billion to pull 82 million cropping acres out of production in the most costly program ever, while 500 million people go to bed hungry and severely malnourished. We advocate free trade so that half the U.S. wheat, soybeans and cotton can be exported while Congress passes a portion of a protectionist trade bill.

We need free-trade, yet our Secretary of Agriculture comes to Ottawa to talk about reducing your exports of pork and potatoes to the U.S. We must find a united position from an unprecedented array of agricultural, manufacturing and special interest groups, who are manoeuvring to get their own way.

And finally, we must find the money to fund agri-food programs while the U.S. federal deficit approaches $150 billion a year and agriculture faces budget cuts.

America's policy dilemma in agriculture stems from an overvalued dollar, from reduced exports and the resulting overproduction of commodities, high interest rates, and a mounting national deficit that saps money markets of available credit.

Some basic facts underpin U.S. agriculture's efforts to develop new policy. First, agriculture is generally oriented to free-trade principles for it must export to prosper, yet there are trade barriers all over the world. Secondly, agriculture is highly leveraged and depends on credit for short-term cash flow, making interest rates very important. Third, agriculture is independent. We have government involvement, and many people look toward it, but basically we hope to be independent. Fourth, our agriculture is family-oriented, with 300,000 of our 2.2 million farmers producing more than half of our food and fibre production. These are family units. Lastly, American agriculture is increasingly impacted by forces beyond our control such as the trade and economic policies of major nations.

These past two years have not been kind to U.S. agriculture. Our net farm income is down nearly 50 percent since 1981. Farm exports have dropped some $6 billion with an artificially strong U.S. dollar and increased export competition. High interest rates have strangled farmers who financed cash-poor operations with credit.

There's a growing call for change. In June, Secretary Block said, "It is clear that the current farm bill has fallen out of step with times. ... We need a better farm policy." Senator Jessie Helms supported him saying our programs are a patchwork of complicated, conflicting, legislative quick-fixes. We need a coherent, comprehensive, long-term farm policy.

Most agricultural experts agree that although agriculture has changed greatly since the 1930's, our farm policy remains much as it was then. So the stage is set for the most complete review of U.S. farm policy in half a century.

What have we done, to date? The nation's best economist, commodity and agribusiness leaders have contributed to an unprecedented number of farm policy studies. The Currie Foundation of Kansas City commissioned studies that attacked high commodity price supports and called for more market orientation to retain export markets. The Kellogg Foundation has budgeted $1.3 million to explore carefully researched policy options. The U.S. Senate Committee on Agriculture has completed policy options for major commodities, to form a backdrop for early 1985 farm hearings. Both field and Washington hearings have been held by the U.S. House of Representatives Committee on Agriculture.

President Reagan appointed a high level Cabinet Council on Agricultural Policy to decide exactly what direction to go. Secretary Block and his staff have completed eight nationwide listening sessions to be analyzed for preparation of the farm bill. And USDA staff economists have done policy analyses of 14 major commodities.

Input form the USDA from the private sector, and from Congress will go into the first part of our 1985 farm bill debate.

Farm organizations have been active too. The American Farm Bureau Federation has toured five major cities, to present 100 farm journalists with background briefings on the 1985 farm bill. The more liberal National Farmers' Organization and the National Farmers' Union have jointly demanded that the government somehow bring parity to our agricultural structure.

Congress has held innumerable sub-committee hearings on a score of areas. The Congress Joint Economic Committee brought together four past secretaries of agriculture who agreed that U.S. farm policy is highly contradictory, encouraging farmers to produce more and more while the U.S. Treasury pays them to cut production. All oppose high target and support prices, the underpinnings of today's farm policy.

Finally, an alarming trend is developing in Washington. A virtual army of chemical, agri-business, trade, banking, shipping and philanthropic groups are assembling to enter the farm policy fray. They join the traditional general farm and commodity groups who are already boosting their own efforts, their member's efforts, their staff efforts, to

get involved in the farm policy debate. When so many people are committed to getting their own way in farm policy, we have problems.

Let me tell you what I think the scenario may be in Washington in January. First the Administration will send its bill to the House and the Senate Agriculture Committees. Hearings will begin, fast and furiously, in the commodity sub-committees, where the lobbyists have the most clout.

After much gnashing of teeth, a mid-year farm bill will emerge and go to a House/Senate conference for consideration. It will be a lobbyist's bill and a farmer's dream. And it will break the budget. The President will veto it. Congress will not override the President's veto. They will say, "We tried but we couldn't get it through this Administration."

Then, with time running short, they will try to draft a realistic farm bill. Using the spending figures the Administration will have indicated it will tolerate, which will be between $3 and $6 billion, not the $20 plus billion of a PIK program. Available dollars will dictate how much the U.S. spends on agriculture in light of budget cuts in almost every program, even defense.

The next step is agreement among all these newly formed and traditional farm interest groups. Many of us think agreement is impossible, and predict either a continuing of the current legislation which none of us want, or slight revisions to existing legislation, which will fail to address the need.

The issue at stake is this: does the U.S. farmer want to adopt government-controlled programs with above-market clearing levels of price supports, possibly of 90 percent parity? Or does he want to move toward more market orientation, where he can compete internationally with higher volumes of commodities and at current market prices?

Someone has to convince the U.S. pressure groups of one of the other of these concepts. The average American farmer wants a market-oriented policy so that he can compete internationally. But it will take the unlikely combination of a strong, diplomatic Secretary of Agriculture; an Administration committed to agriculture and free trade; and order and unity among the farm and allied trade groups. It will also take close working relationships and co-operation among key members of the President's Cabinet.

The U.S. can no longer establish agricultural policy independently, as the USDA now operates in a fast-moving international arena. Agricultural policy is determined in effect, by the position of the U.S. dollar (Treasury Department); the direction of foreign policy (State Department); the initiatives of our trade negotiators (Special Trade Representatives); foreign business agreements and policies (Commerce Department); and by the cost and impact on the federal executive branch of government.

In closing, these predictions are shaped by public and private discussions that I have had, by reviewing policy papers and analyses, and lots of second guessing based on twenty five years of work in agricultural pursuits.

One further consideration that bothers me a great deal is the strong move by certain interest groups toward protectionist trade policies. I met recently with a senator from a state bordering Canada — he's a member of the trade policy-writing Senate Finance Committee — who said, "You haven't seen anything yet .... Wait until the new session of Congress.... You'll see greater moves toward protectionism." I hope he's wrong.

But right or wrong, here's the direction I see for U.S. farm policy. One, U.S. farm policy will become more market-oriented, with reduced government involvement. It will be shaped by reduced spending on costly support programs, strongly negotiated foreign trade agreements, and pressures from a diverse business and agricultural community.

Two, the cost of farm programs will increasingly be borne by the U.S. farmer, not the taxpayer. During the PIK year of 1983/84, farm programs cost more than $50 billion, $20 billion for PIK alone. If farmers want those kinds of programs, they're going to have to pay for them, through check-offs or commodity deductions, such as the dairy diversion program, that brings some $150 million of farmer money into market research and promotion in marketing in total.

Three, the USDA will have a reduced role in shaping farm policy. The Secretary of Agriculture is only one of six voices on the Cabinet Council that will set our final farm policy.

Four, bankers and farm credit officials will have an increased role. As we shift to hard credit, away from soft government credit, bankers will help set the parameters for farming operations and direction.

I hope cooler heads will prevail and convene a new round of GATT negotiations.

In closing, I would say that we have to open our borders for more give and take in international trade. Canadians, Americans, and a billion people around the world who need our food and fibre are looking to us for an answer to the agricultural policy dilemma.

Q. If the U.S. is going to export more food to third world countries, what is the U.S. prepared to do so that these countries can pay for these increased exports?

A. The U.S. will extend its export credit program to give these people long-term, subsidized credit. Half a billion people go to bed hungry but can't pay for our food. We can't dump it, we can't give it to them. We have to sell it, so it has to be on long-term credit.

Q. How will you deal with the wave of farm bankruptcies triggered by these new policies?

A. Most farm bankruptcies are occurring in farm operations that were given unjustifiable amounts of credit under government programs. Now the Farmers' Loan Administration is having to extend moratoriums on interest and or principal payments. But farmers are over-extended and bankruptcies are still occurring. We have to shake out some of these marginal farmers. That's a reality.

BIOGRAPHY

PAUL WELLER, JR.

Paul Weller is President of Agri-Washington, an agricultural public affairs counselling firm based in Washington.

He has been a registered lobbyist for more than 15 years, having met with four presidents, more than a hundred members of Congress, and scores of agricultural and industry leaders. His professional responsibilities have included management of a major agricultural political action committee (PAC), nationwide programs of farmer political involvement, and trade association management.

The Role and Direction of Canada/Ontario in The World Agri-Food System

DOUG HEDLEY
Director, Strategic Planning Division
Agriculture Canada

The familiar homily that Canada is a trading nation underscores a very basic economic fact of life. However, few people attempt to explore the sectorial nature of this trade, and to recognize the differences among sectors, including those *within* the agri-food sector.

Canada exports about 27% of its GNP, whereas Japan — a major trading nation — exports only 16%. In addition Canada is one of the few developed nations in the world with a domestic market of less than 100 million people, whereas Japan, the U.S. and Europe have very large domestic markets.

All of Canada's natural resource sectors show a positive net trade (Figure 1), while transport equipment, machinery, and other manufacturing are negative.

Agri-food — including fish and fish products — is second only to forestry. In fact, agri-food was the only sector to increase trade continuously throughout the 81 82 recession.

This growth was caused by increased exports, not by a drop in imports (Figure 2). Figure 3 shows the increased net trade is with the centrally planned economies—East Europe, the USSR and China—mainly due to the growth in the grain and oilseed trades of the late 1970's, and because we import very little from these countries.

Figure 4 shows that the growth in pork exports, supported by beef, and beef animals, has become important to the Canadian agri food system, particularly in trade with the U.S.

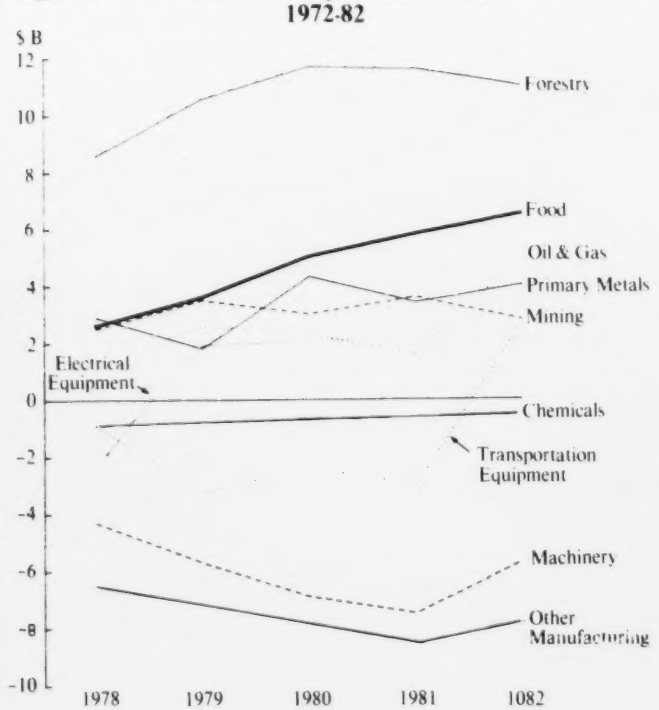
Agri-food trade differs sharply from Canada's overall trade pattern.

First, with the developed countries, it is relatively small compared to the net balance of overall trade with them. For example, we export $1.7 billion in agri food products to the U.S., our largest customer. The second largest is the USSR. The industrialized countries account for 50% of our agri-food gross exports, but are responsible for 85% of our *total* exports, indicating that our agricultural trade interests are different from our more general trade patterns.

With a relatively low tariff level for 70% of our agricultural products, we cannot increase exports by reducing trade barriers. Lower tariff levels for Canadian agri-food exports could only be achieved with concessions from the industrial sector on their tariff levels.

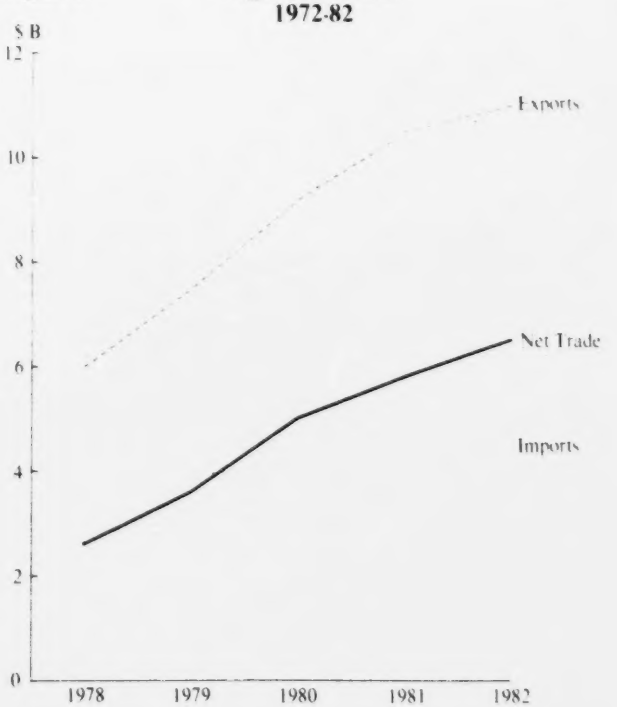
The international trading environment is threatened with increasing

Figure 1 **Net Trade in Major Commodities 1972-82**



Source: Commodity Trade by Industrial Sector, Historical Summary 1966-1982, Industry Trade and Commerce and Regional Expansion Government of Canada

Figure 2 **Agri-Food Trade 1972-82**



Source: Commodity Trade by Industrial Sector, Historical Summary 1966-82, Industry Trade and Commerce and Regional Expansion Government of Canada
Agri-Food comprises — Agricultural Product, Food and Beverage, Tobacco and Fish

protectionism led in many parts of the world by attempts to protect agriculture.

There are three points we need to recognize. First, continuing improvement of market access, within the GATT-associated countries, will be difficult to achieve.

Tariffs are already very low and alterations to non-tariff barriers would require amendments to the original GATT agreement.

Second, as supplies for several agricultural commodities outstrip demand, several exporters are attempting to expand markets with aid, credit and long-term agreements. These measures, combined with the various subsidies to producers, are having the effect of protectionism, i.e., shutting down trade.

Third, domestic agricultural policies are clearly perceived by GATT and the OECD as contributing to over-supply, increased competition, and weakening prices. The linkage between domestic policies and international trading rules will be the most significant issue for the next 15 years. The recent action taken by the U.S. against our potatoes and pork are examples. Gale Johnson of the University of Chicago estimates that world grain prices are 10% lower today, because of domestic policies of importers and exporters.

Of course, the impact of domestic policies can be over-shadowed by events in the exchange market.

The drop in the Canadian dollar relative to the U.S. by 10% since 1980, and by 4% recently, has contributed to Canada's increase in net trade, particularly in animal and animal products. Importers find Canadian exports more attractive than U.S. exports.

However, the general strengthening of the U.S. dollar, carrying with it to a lesser degree the Canadian dollar, has decreased the growth in Canadian export values for commodities such as grain. If the Canadian dollar is currently undervalued then agricultural export prices and farm income will decline when the Canadian dollar goes up in value.

There are three markets for the agri-food sector: the domestic (which accounts for two-thirds of the demand), the developed world, and the developing world.

At home, growth prospects in North America, and Canada in particular, will be considerably slower for the next five years, than for any comparable period in the 1970's. Also our persistently high unemployment rate, now 11-12%, is unlikely to improve.

These two factors, combined with low population growth, will keep domestic demand down.

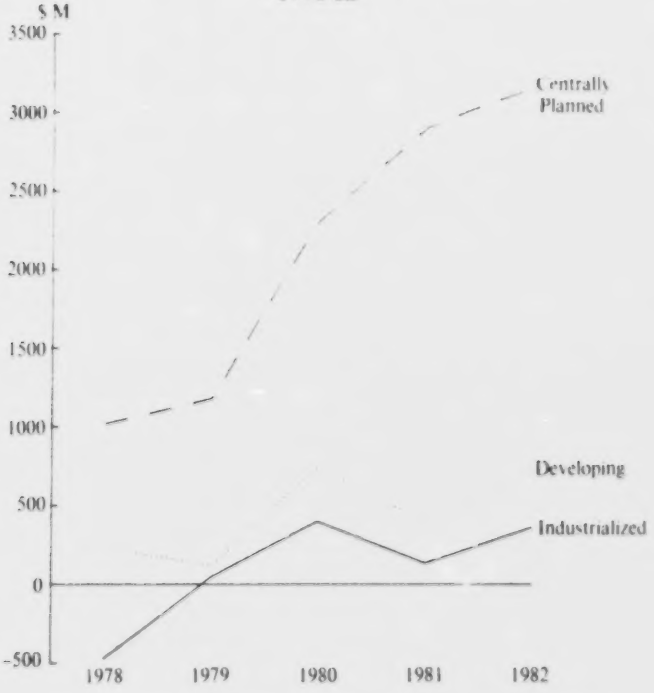
Abroad, about 20% of our agri-food exports go to the developing world. For the U.S., the comparable figure is 30%. However, the debt situation in the third world is precarious, with more than half the outstanding third world debt being owed by major importers of agricultural products. To maintain their import levels, these countries would have to increase their debt from $700 billion to $3 trillion by 1987.

As this is unlikely, demand in the third world will decrease sharply. Also high interest rates in the U.S. have strengthened the U.S. dollar, doubly affecting countries with debt denominated in U.S. dollars and interest payments in U.S. dollars at commercial rates.

This strong U.S. dollar will reduce third world demand for imports and depress prices in Canada and the U.S.

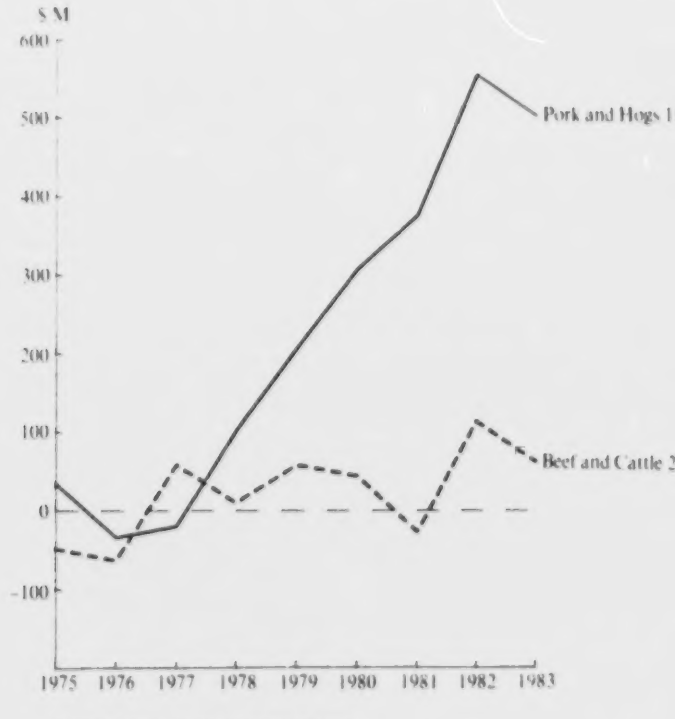
Agricultural trade with developed counties will be subject to a de-

Figure 3 **Agricultural Net Trade By Country Grouping 1978-82**



Source: Selected Agricultural Statistics, Canada and the Provinces 1983 Agriculture Canada

Figure 4 **Net Trade in Pork and Beef**



1) Includes all live, dressed, sausage and offal trade
2) Includes all live, dressed and offal trade. Dairy cattle are not included

mand situation similar to that for North America. The centrally planned economies are stable markets at present, but debt problems in eastern Europe will limit the growth of demand.

In the U.S., slowly increasing target prices and loan rates and slowing export demand have softened the prices of grains and oilseeds and triggered substantial deficiency payments. This trend makes increasing inroads on the U.S. budget while actually weakening export demand. The alternative of lowering loan rates and target prices would force agricultural asset values downward. Budgetary pressure in the U.S. suggests the latter. To treat the weakness in export grain demand, either by idling land through programs reminiscent of the 1950's in the U.S., or through credit guarantees of concessional sales as in the 1960's, implies intense downward pressure on international prices. Which ever alternatives the U.S. adopts, Canada will be directly affected.

In red meat, Canadian pork exports to the U.S. and Japan have grown rapidly since 1979, due to federal and provincial credit and price stabilization programs. The U.S. has no such programs, and is alarmed about growth of hog imports from Canada, as it weakens the U.S. agricultural trade balance and lowers their domestic feed grain demand.

Ontario differs somewhat from the national picture. External net trade in agri-food products is slightly negative, although the highest growth in total exports from Canada and Ontario are the same products: grains — particularly corn and some soybeans — moving to east Europe and Cuba. Accordingly, Ontario will increasingly agree with western grain interest about export market access, but will collide over domestic inter-regional trade, pricing and utilization.

I will look now at the agri-food industry, as a connected chain, from farm supplier to retail check-out person.

Fewer than 4.5% of Canadians live on farms. In 1981, 28% of our farms produced 78% of the entire product. The agri-food sector, including crop producers, processors, distributors, retail food outlets, employs 1.4 million people. If all the services provided to the sector are included, such as transportation and packaging, the figure is 2.8 million. One sixth of all consumer expenditures are on food and beverage. Over one third of farm products are exported, either raw or processed, providing a large value added component. Farm products are worth $20 billion. At retail level, they're worth $60 billion. Also there was little change in employment in the agri-food sector through the 81/82 recession.

The interaction between agriculture and the rest of the economy will increase in the 1980's. We must design policy to take this into account rather than protecting the farmers from such items as oil and commodity prices through resorts to the public purse.

I would like to conclude with a look at the federal government's expenditures (Figure 5) in the agri-food sector. Agriculture Canada controls and operates about 50% of the federal expenditures on agriculture. 1982 figures show Regional Industrial Expansion controlling 15%; Transport Canada, 18% (now larger due to changes in the Crow payments).

Direct transfers to farmers (Figure 6) take up 49% of Agriculture Canada's budget — about $600 to $700 million a year. Inspection and grading, including the cost recovery component, are at 18%. Regional Development accounts for 5%, and administration, 4%. Research gets 18%, representing half of total research in the agri-food sector. Other research spending comes from provincial governments and private industry. In fact, too little research is being done by non-government organizations.

The future of government expenditure levels in agriculture will depend on the fiscal pressures facing federal, and provincial, and municipal governments.

Figure 5 **Federal Expenditure in Agriculture**

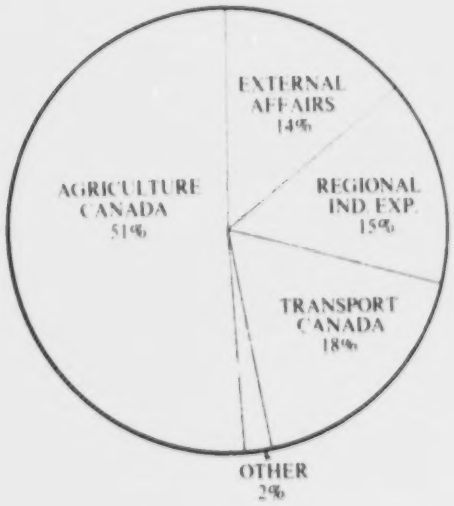
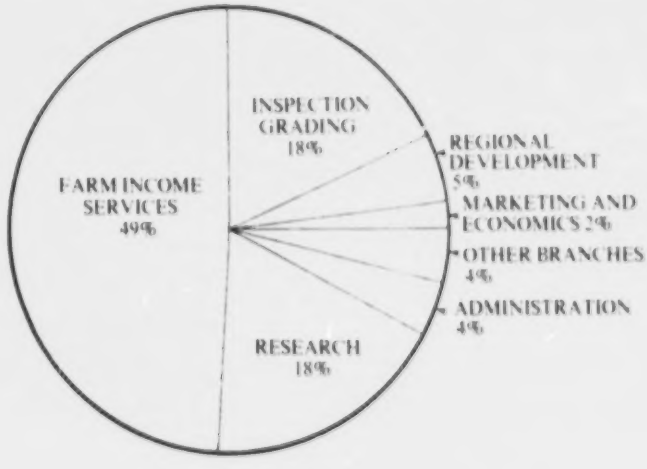


Figure 6 **Expenditures by Agriculture Canada**



Q. It appears that Paul Weller is proclaiming to us that 1985 will be probably one of the biggest years of decision-making in agripolicy in the U.S. I wonder what's going to happen in Canada? Are we going to be prepared for any changes of the magnitude that we're being told to look forward to, or are we just going to react in the standard knee-jerk fashion in Canada? What are the department's plans to respond to this change in U.S. policy considering that our biggest trade partner in agricultural goods is the United States?

A. If the U.S. goes ahead with substantial cuts in their budgeted programmes, we're looking at a major reduction in some of our commodity prices. It's the only way they're going to be able to do it quite frankly. They've got to lower those target and loan rates. That lowers the structure within North America of those feed grain and wheat prices. That impacts directly back into Canada. We are relatively open on those prices. In terms of our own policies and policy direction, I think it's much too early to tell whether or not we're going to see, as John Crispo has proposed, a relatively sharp budgetary contraction within Canada in the next year to year and a half, or a more gradual contraction. I honestly cannot answer that question at the present time.

BIOGRAPHY

DOUG HEDLEY

Dr. Hedley is Director, Strategic Planning, Agriculture Canada, where he is involved in corporate planning, and assessing issues affecting departmental resources, priorities and policies.

He received his Ph.D. from Michigan State University in agricultural economics. He has worked in Latin America, Africa and Southeast Asia in research, university development and teaching with the Rockefeller Foundation. He has worked in commodity policy, forecasting and departmental planning with Agriculture Canada.

Government Policy: The Role of Government and The Effectiveness of Policy in Shaping the Future

E. W. TYRCHNIEWICZ

Professor, Agricultural Economics University of Manitoba

Agricultural policy-making is a complicated and compromising process. Many stakeholders, interest groups, and actors are involved in shaping agricultural policy in Canada. Each group has its own set of objectives, usually clearly stated, but on occasion not so clearly stated. The arena for agricultural policy-making is much broader than the Parliament of Canada and the Legislatures of the Provinces — policy-making occurs in offices of Ministers and civil servants, political party caucuses, commissions of inquiry, farm organization board of directors meetings, and coffee breaks and receptions at meeting such as this one.

THE ROLE OF GOVERNMENT

Canada's constitution sets out broad areas of responsibility for the federal and provincial levels of government. The federal government has assumed responsibility for monetary and fiscal policies, inter-provincial and interregional matters, and international issues. The provinces were given sovereignty over land and natural resources, education and agricultural extention activites. When policy conflicts occur, the position of the federal government usually prevails or the issue is settled by the courts.

Operationally, the jurisdiction distinction on agricultural matters is not always clear cut. One need only think of provincial quotas for nationally supply-managed commodities, income stabilization programs, and various regional development programs. Thus, differences, tensions, and conflicts are an inherent part of the government policy-making environment. Balkanization of agriculture is an ever present threat, unless various governments are prepared to cooperate.

A further complication in considering the role of government in agricultural policy-making is brought about by the number of government departments with a responsibility for or an interest in agricultural issues. Land use questions at the provincial level are a good example of this, as are health and quality of food standards at the federal level. Changes in government, as well as internal government reorganization, can also bring about shifting responsibilities. Over the last two decades, the Canadian Wheat Board has reported to Parliament through various Ministers — Agriculture, Transport, Industry and Commerce, and various Ministries of State.

GOALS FOR AGRICULTURE

To better understand the policy-making process in agriculture, it is necessary to consider the spectrum of goals and objectives that governments and other interested groups may have for agriculture. These goals may have many dimensions — economic, social, psychological, environmental, nutritional, and political. Every interest group (including government) has a combination of these goals with various weights attached.

Rather than attempting to list and elaborate on all possible goals for agriculture, let's examine the conflicts inherent in the goals of efficiency and self-sufficiency. This can be narrowed down to three options:

1. Efficiency of agricultural production in a national and international setting
2. National self-sufficient in agricultural and food production.
3. Regional (provincial) self-sufficiency in agricultural and food production.

Although these options are not mutually exclusive, selecting any one of them as a policy focus establishes certain guidelines for federal and or provincial governments. Focusing on efficiency in agricultural production implies production at locations of greatest comparative advantage in Canada, open access between regions and internationally in the marketing of products, lowest prices of food to the consumer, and larger farms with a resulting need for rural adjustment. At the same time, this focus implies less emphasis on income and equity problems of small farmers, and less concern for population stability in rural areas. It requires that governments concentrate on creating a climate for efficiency of production and processing of agricultural products rather than on equity and distribution of income and processing across Canada.

Emphasis on national self-sufficiency in agricultural production focuses on the production of as great a range of commodities as possible in Canada. It implies stability and production incentives on a national basis but at a level which tends to meet Canadian consumption needs, protection of Canadian producers from lower-priced foreign imports, consumer prices sufficiently high to ensure stable production, and emphasis on equity among regions and producers in Canada. At the same time it requires less emphasis on international trade in agricultural products. It requires a heavy reliance on federal authority in stabilization policy, but offers little support for provincial import replacement and self-sufficiency goals.

A provincial self-sufficiency option tends to focus on both self-sufficiency in agricultural products and equity among producers in the province. It implies a provincial allocation of market shares, and differential stability and incentive assistance to meet variable costs of production by region. At the same time, little attention tends to be paid to comparative advantage and efficiency of production, and little or no concern for exports. Further, it implies a lower level of federal authority in agricultural policy, balkanization of domestic markets, and a higher degree of provincial involvement in national agricultural policies.

In actual fact, Canadian agricultural policy is a mix of many elements from all three options, with resulting conflicts among proponents. British Columbia has taken strong initiatives to expand production and replace imports of feed and forage from other parts of Canada by developing a high level of stabilization and incentives favouring its own agricultural sector. The Prairie provinces have generally favoured policies to increase efficiency of agricultural production to permit competition in international markets. Ontario has followed a long-term policy of developing an internally self-sufficient agriculture. Quebec has moved towards increased self-sufficiency,

especially since the election of the Parti Quebecois. This has been especially noticeable in feed grains and beef. The Atlantic provinces are having increasing difficulties maintaining the traditional export markets in Central Canada. More and more they are taking steps to increase their own self-sufficiency.

The pursuit of these different policy options by various governments tends to result in conflicting and sometimes wasteful public expenditures of funds. The situation was complicated by the agricultural strategy of the previous federal government which emphasized efficiency of food production as well as national self-sufficiency insofar as possible. It is too soon to tell what the focus of the new federal government will be on agricultural policy.

MAJOR STAKEHOLDERS IN AGRICULTURAL POLICY

In addition to the federal and provincial governments, many other groups have staked a claim in the development of agricultural policy — farmers, consumers, agribusiness, and environmentalists. There is little doubt that the traditional role of farmers and their organizations in policy-making has declined, partly because of declining farm population, but also because of a growing awareness and concern about agricultural issues by non-farmers. It is interesting to note that the number of unemployed persons in Canada is now approximately three times the total farm labour force.

Farmers are not a monolithic group. There are commercial farmers, "way of life" farmers, and transitional farmers (beginning farmers and retiring farmers). In addition, farmers are differentiated on regional, commodity, and philosophical grounds. Leaders of farm organizations at provincial and federal levels, face a formidable task in searching for a unified farm voice on agricultural policy issues. The fierce debate among farm groups on the issue of changing freight rates on Prairie grain is a prime example of the difficulties faced in developing agricultural policy.

A relatively new participant in agricultural policy debates is the food consumer. The Consumer Association of Canada has taken a vocal stand on issues such as supply management and fluid milk pricing. A closely related but unorganized group consists of taxpayers, who express concerns about the size of subsidies going to the agricultural industry.

Many agribusiness groups, involved in providing inputs and services to farmers and in the processing, marketing, and distribution of agricultural products, often take part in agricultural policy debates. These include groups like the Canadian Bankers Association, Chambers of Commerce, the Canadian Agricultural Chemical Association, the Grocery Products Manufacturers of Canada, and Canadian Meat Council, and the Canola Crushers.

People concerned with ecological and environmental implications of certain agricultural practises, especially the use of agricultural chemicals and land and water quality, are also taking a greater interest in agricultural policy. This trend has been intensified as the number of "hobby" farmers and non-farm rural residents increases.

CONCLUSIONS

Given the diversity of goals for agriculture and the myriad of stakeholders, is it possible to have effective agricultural policy? Many well researched and broadly supported proposals for agricultural policy undergo considerable modification from the time they are first presented until they finally emerge as legislation. This is particularly difficult reality for any individual or group that views policy as an "all or nothing" proposition.

Changing agricultural policies in response to changing conditions is also a slow and often painful process. Again, consider the time and effort associated with changing the policy on freight rates on Prairie grain — and we are not yet finished with that exercise!

The effectiveness of policies in shaping the future of agriculture in desirable directions is predicated upon a number of conditions:

1. An understanding of policies in shaping the real problems facing the agriculture sector.
2. A clear statement of goals that governments wish to achieve.
3. The development of effective policy instruments to achieve these goals.
4. A mechanism for periodic review of policies.
5. A process for modifying or terminating those policies that are ineffective.

This is not an easy task. Policy-making in a democratic environment is frought with complexities and compromises. As Winston Churchill stated, "democracy is the worst form of government except for anything that might replace it".

Q. As a farmer I know what it costs me to produce beef, or a bushel of corn or beans. If commodity prices are going to fall, we'll have difficulty beating our input costs. I don't know how long I can live on my depreciation. My equity is very quickly eroding. How can we as farmers continue to conduct the farming business?

A. We're not dealing with the real problems of agriculture when we mess around with programs of self-sufficiency, or regional market shares. We have to determine where a commodity can be produced as efficiently as possible. Some farmers may have to shut down because wrong-headed policies have got people producing things they shouldn't be producing. Now government is running short of money and can't afford to bail out immediate problems. We have to face fundamental fact of regional comparative advantage and orient programs to support agriculture based on that principle.

There is going to be an awful shakedown in agriculture. More farmers will have to work off the farm. Marginal farmers will go right off the farm. In the rationalization process, many farmers simply will not survive.

Farm bankruptcies are running at 15% of the small business rate. As a result, other government departments are not very sympathetic about the bankruptcy problem in agriculture.

Q. How many businessmen work for no salary? How many have poured their life's savings into that farm? Farmers are going to fight. Farm unions will block the roads, kill animals, pour milk into ditches the way they've done in Europe.

A. I understand what you're saying, but if you block the roads, will it really change anything? With the world economic situation as it is, and a deficit of $35 billion, where will the money come from to bail you out? We must phase adjustments in over time to avoid undue hardship.

If farmers are to be more effective in the policy-making process, they must get their acts together, bridge their philosophical differences, and reach a consensus. In the Crow debate the farm consensus fell apart, and rural Quebec got what they wanted partly because western farmers couldn't bridge differences.

BIOGRAPHY

ED TYRCHNIEWICZ

Ed Tyrchniewicz received his Ph.D. in Agricultural Economics from Purdue University. He joined the Department of Agricultural Economics at the University of Manitoba in July 1967 and headed that department from 1977 to 1984 when he became the director of the University's new Transport Institute. Among the commissions he has served are the Canadian Transport Commission (1973), Food Prices Review Board (1973-75), U.S. Senate Task Force on Rural Transportation (1975-77), and coordinated analysis for the Gilson Consultation on Crowsnest Grain Rates (1982).

A Producer's View of the Future and Government's Place

TERRY DAYNARD
Secretary
Ontario Corn Producers' Association

Agriculture, like most aspects of society, suffers from myth — perhaps better termed as false perceptions of reality. There are three perceptions that have particularly harmed the well-being of Ontario farmers in the 1980s.

First, that the world faces imminent starvation. Or its corollary that there will soon be a demand for everything farmers are producing. The farmer overlooks the short-term surpluses because he thinks sooner or later somebody's going to need every bushel or every pound that can be produced.

A second myth is that the real farmer is like his ancestors — that he's a small operator with low business acumen, few interests outside family and community, and relatively few worries.

And a third myth is that only a small percentage of farmers are in financial difficulty, and when they are, it's due to their own poor management and so deserve the position they're in.

The realities are exactly the opposite.

The first reality is that the developed world is oversupplied with food, as it has been for decades, and the imbalance is becoming worse. North America has long been a surplus area. Europe, a deficit producing area after World War II, is now exporting virtually everything. Even Japan, that looks like a big market for us, will probably ultimately be self-sufficient.

Shortages do exist elsewhere, most notably in the communist world which in the last ten years has been a major market to Canadian farmers. This may not continue, especially if we keep trying to close our markets to products from eastern Europe and the Soviet Union. Those products generate the hard currency they need to buy our farm products. China this year may export rather than import sizable quantities of grain.

The Third World remains in major need of food, but they don't have any money. The solutions to their problems are probably homegrown food rather than imports from us. If we weren't so determined to bar products produced by their cheap labour, they might well buy food here. If their labour is willing to work cheaper than ours, why shouldn't we buy their cars and steel products, and let them earn the money to buy food from us?

In Ontario, the oversupply situation is only 10-15 years old, but we now have surplus production of just about everything. For example in the last 15 years, grain production increased 70%, and the population increased only 11% with a corresponding increase (presumably 11%) in the demand for food. The net result is we export virtually every type of grain and will soon be a notable net exporter of soybeans.

A second reality is risk levels. Risk levels are high in agriculture, higher than they are to any other small business. We have the same risks as other small businessmen, but we have very little control over prices and input costs. We don't have a roof over our business, so the weather affects us. If it's foggy for the whole of October we can't harvest a crop even if it is out there.

A third reality is that there are relatively few farmers involved in food production. The census figures show 82,000, but those same census figures show that 25,000 farmers produce over $50,000 in gross sales. It's even questionable whether that represents any significant scale of farm operation. The real number of farmers is much smaller than that. For example, my area is corn: the '81 census shows about 27,000 farmers in Ontario growing grain corn. If you look at the numbers, 4500 farmers — about 17% — grow more than half the crop. The same in soybeans — about 2,000 farmers are the effective soybean producers. In potatoes, it's worse. There are 52 farmers, according to the statistics, that produce over 50% of Ontario's potatoes. That's about 3% of the people classed as potato producers by the census. In hogs, 8% of the people who call themselves hog farmers produce 50% of Ontario's hogs, and the same applies in poultry. The 82,000 figure is vastly misleading.

There aren't many people producing on a large scale. Those who are are skilled businessmen, broadly aware of the market realities both international and domestic. They have good management skills in amazing number of realms. Few people in society need as many different management skills as a farmer.

Farmers with high capital investment are often engaged in other types of business. Somehow in agriculture there is a bias against the person who's involved in farming and some other non-related business. Yet there isn't such a bias against somebody involved in real estate and who has a few stocks in the steel industry, or part ownership of a small store.

And these people *are* family-oriented. In fact, statistics suggest the number of non-family corporate farms in Ontario is going down, not up. A bad myth is that the family farm is threatened.

The final reality is this question about who's in financial difficulty. I suggest that serious financial problem at the moment is the norm rather than the exception for the modern progressive food producer.

I've picked this up loud and clear during my involvement with the Corn Producers' Association. People on my own board and elsewhere, that I thought were well-established, are on the OFAAP program or in all kinds of other difficulties. As a cash crop producer, if you're in financial problems, you're not an exception by any means. The same appears true in the livestock business.

The Farm Credit Corporation agrees. A recent study shows that while the average equity of Ontario farmers is 82% (down quite a few percentage points over the last 3 years), a third of them have an average equity of around 55%. These farmers are generally the most productive, representing over half of the sales. They're expansion-oriented, young but not novices, whose average experience is 11-16 years. That's a farmer who should be well-established and doing reasonably well. Also, these people average a larger personal investment in their business than those with a larger equity.

Why are these farmers in trouble? Because they followed the good economic and management sense of the late 1970s.

Any good business is expansion-oriented, but to grow, it has to bor-

row money. Farmers did that, as did other people in society, and these are the people in trouble at the moment. They're there because of good management, not bad, as is commonly suggested.

For the future, one can only extrapolate the present. These suggest the current price patterns and cost price squeezes will continue.

Real prices for agriculture products have gone down in North America for the last 100 years. Real wheat prices and corn prices in the U.S. show a steady decline since 1870-1880.

The Depression lowered prices. World War II raised them but the downward trend continues, and will continue, barring another war or a unique problem that affects crops and so on.

Farmers will continue to enlarge and diversify, as any other business is doing at the moment in an attempt to survive. In fact, they're going to become larger, and get more involved in other operations.

The distinction between farm and non-farm sources of income will disappear. I'm not defending section 31 of the Income Tax Act as it exists, nor do I favour some of the proposed changes, but we will have to remove that kind of artificial distinction.

Farms will remain family-oriented. No big business will risk the kind of cost-benefit ratios in farming or the returns to labour and investment. If anything we're going in the opposite direction, becoming more family-oriented.

Finally, the management, business, and political skills of farmers will improve, and improve markedly, as the number of farmers continues to decline.

What do you need to retain viability? One thing is stability. The plague of the farm community is the uncertain environment. You can't control how much heat you get, how much rainfall if you depend on natural rainfall. These will remain a part of agriculture, at least with the technology that's foreseeably available.

But any type of program that can minimize the economic uncertainties, minimize other types of risks, are absolutely crucial.

It is tempting to say we need higher farm prices but that's not realistic and perhaps not a good objective. We may be able to slow the rate at which real prices decline. If we continue to become more efficient (through improved technology), the real price per unit of production should decrease.

We can reduce the rate of price decline through market development, and new uses for our products. For example, corn producers believe there's a large market potential for the Canadian grain producer in fuel alcohol production.

Education is another real need. The level of farmer education may need to be higher than that of people serving him simply because the farmer must be knowledgable in so many areas.

The educational level of the top farmers is remarkably high now. Many have master's degrees, some have PhD's. I believe that in the long term, a minimum requirement will be a unversity education.

Another reality is research. Research is a two-edged sword. It obviously helped cause the oversupply problems we have in North America. For the farmer's well-being, if every one stopped doing research and trying to improve technology, we may all gain, but that won't happen. So we must continue to do research, to do it well and to put major resources into it to keep our farmers competitive with the farmers in Illinois or Iowa or Saskatchewan or wherever new technology is being created.

Finally, what about roles in agriculture? Ontario has been blessed with good leadership from several different sources in agriculture. The OMAF county offices have given incredibly good leadership for several generations.

So have the agricultural colleges and the University at Guelph.

However, the strongest leadership in the future must come from the farmers themselves. It has to come from the commodity groups through to groups such as the Federation of Agriculture that stretch across commodities. We can't count on anyone else to do the job as it should be done.

Finally, what we can expect from government? I'm not completely clear about what is fair for an individual or a farm organization to expect from government. In many cases we expect too much. We expect them to solve problems we don't know how to solve. Government cannot provide the wisdom that has to come from rural Ontario. Responsiveness, rather than leadership, is what government should provide. Government has a responsibility to listen to the many voices of agriculture and act. The solutions must come from the farmers, not the government.

However, government must take the major role to fill some needs. One is the dominant need for stability and risk minimization. Safety nets such as crop insurance and stabilization programs have been provided reasonably well by government, although at times they seem better designed for the smaller farmer than the larger. In stabilization, for example, Ontario limits coverage to 1200 tons per farmer. This is unrealistic. There should be no limits on this sort of program. Society in Ontario gets and should be prepared to protect the producers of about the cheapest food in the world. Financial protection programs, such as those in the corn industry, are a good example of the safety nets needed. Government is the only logical provider.

Equally important is stabilizing of the financial environment — the supply of credit and its cost. Government has not made a particularly good job of this in recent years. Interest rates are the one single reason farmers are in trouble. It isn't commodity prices; it's the high interest rates that hit in 1980 81 and continue.

When the prime rate hit 22-3 4% farmers were forced to dump assets on the market, causing land prices to plummet in much of Ontario. We will be a long time recovering from that. Government should have been more effective, and should still be more effective, in stabilizing interest rates. That's not to argue that it should provide money at 3% interest, but it must create an environment so that doesn't happen again. In fact, government handling has made people afraid to expand. They don't know whether the prime will climb to 20% again.

Governments also have a major role to ensure fairness in the marketplace, to ensure every producer has an equal shot at the domestic market, especially when there are a small number of buyers, as is the case in the food business. Governments, by and large, have met the obligation to ensure that farmers can deal on a equal footing. In export markets fairness means trade-offs. Governments must make sure we get our share of trade-offs. It's tempting to throw up barriers. In the corn industry, we would like to have price protection from imported sugar. If sugar were a bit higher priced than it is in the U.S., the demand for corn to make sugar could increase markedly. Grape producers have comparable problems. But it's dangerous to contemplate protection because of the long-term repercussions.

Finally, I would mention education, research, and collection and provision of good quality statistics. That will always be a realm in which governments have priority.

To summarize, the tough times will continue but the opportunity exists for good businessmen to make a good living out of agriculture, and those opportunities will continue in the future.

Q. I'd like to answer a question that Dr. Daynard asked: Why shouldn't we buy automobiles, or whatever, from low labour-cost countries, including Soviet Russia?

We have a very good reason for not buying products that have an unknown, but apparently a significant level of slave labour. If my standard of living as a Canadian depends on buying products with slave labour in them in order for us to sell our grains abroad, I for one will accept a lower standard of living.

A. I'm no defender of the Soviet Union, but we depend on them to buy massive quantities of grain from us. Obviously they've got to have some money. Yet every time they try to sell something, somebody throws up a barrier. We have to accept their manufactured items, or we're not going to sell them any grain. If we don't want to buy from the Soviet Union, let's buy from Mexico, or from any of the countries that would like to buy our food, but at the present time, cannot afford our food products.

BIOGRAPHY

TERRY DAYNARD

Terry Daynard graduated from the Ontario Agricultural College with B.Sc. (Agri.), M.Sc., and Ph.D. degrees in 1965, 1966 and 1968, respectively. Since 1969, he has been on the faculty of the Department of Crop Science, University of Guelph. His activities have included teaching, agricultural extension, and research on crop production. He is the Secretary-Manager of the Ontario Corn Producers' Association and a cash-crop farmer.

A Small Business View of the Future and Government's Place

RICHARD WIETFELDT
Chief Economist
Canadian Federation of Independent Business

The membership of the Canadian Federation of Independent Business runs the whole gammut of Canadian businesses.

About 96-97% of Canadian business is small firms. By small, we mean Canadian-owned, independent businesses. Some are firms of 500 employees. Approximately 40-45% of all employees work for small businesses, well over half the employees in the private sector.

So its not small in the aggregate, though the individual units are small. We're skewed towards the commercial, somewhat larger, small businesses, but 70% of our members employ under 10 people. We have some farmers, and a substantial number of manufacturers and construction firms, representing the industry breakdown in the whole economy. There are many retailers and service firms.

In the food industry, one out of five firms say they have a significant problem with unfair competition from large business. A large supplier might say, "You have to buy from me a minimum of $2,000 in any particular order or I can't sell you any items." This makes it impossible for, say, a small hardware dealer to supply a small number of customers with a full range of hardware goods.

Another problem is certain aspects of labour relations. The small firm does not have a specialized personnel officer to speak to a hearing before a labour board. The owner has to go himself and he's often not able to go. Compliance burden, we call it. Ability to respond to government or regulatory problems is difficult because small business doesn't have specialized management.

The food industry is, characterized by particularly large dominants at the distributor end. They are also highly involved in manufacturing, in transportation facilities and other ventures.

Canada and North America are characterized by the existence of dominant, very large merchandising firms. In U.S., a food manufacturer does 20-25% of its business with the four or five largest chains. In Canada, the same company, with the same range of products, does 60 - 65% of its business with the large four companies. You might say that we are dominated by large manufacturers. They buy advertising we are continually exposed to, and influence our attitudes and our perceptions about the food industry. They are very powerful.

Large business or market power in itself is not evil, but it has certain definite effects we ought to be concerned about.

The problems are several. One is advertising allowances. The talk in the trade associations is that when a food manufacturer enters the door of a retail chain he feels as if he has a gun in his side. The gun is, "How much money can you give us for advertising allowances?" The active force in the food market is restricted access to the food shopper. It's not restricted by monopoly power, but by the concentrated patterns of mass buying. Mass merchandisers, like Loblaws, Dominions, and Steinberg's, have an unequal corner on the market, for main line groceries. (The small retailer has to find a niche, whether it is a local niche, particular to him, a niche of service, or a price niche. Some are doing very well, gaining back some market share.) Advertising isn't cheap and certain economic facts make it cheaper to advertise specials in 40 stores than in 4, or in 140 than in 40. The question is what is the public utility involved in the power when you're able to exercise that type of advantage.

Let me summarize the discounts and allowances briefly. Discounting has been increasing over ten or 15 years. Chains can say, "we will move so much of your product. Apart from the fact that we can take car loads of your product, we have the additional advantage that you need us. You absolutely need us, whether you're General Food, or Quaker Oats, or a small independent manufacturer". The chains have the advantage and it has nothing to do with savings to the consumer or a cheaper way to do business.

I know an independent manufacturer who sells a packaged grocery product through a commissioned sales team of his own, who deliver to the individual Dominion Store, Loblaws Store, Steinberg outlet. He delivers it, puts it on the shelves for the chain exactly as he does for the independent store. There is no difference in cost to him, yet he is forced to pay rebates to the chains on the grounds that they control a great number of individual stores.

In another case, as was testified by the Grocery Products Manufacturers to the Royal Commission, a chain will ask a supplier to raise the price. The reason is quite simple. The object in business is not just to buy cheap, but to buy cheaper than your competition. If a large chain can raise the price $1 a case and get an additional rebate of $1 a case, the supplier will probably raise his prices to all of the chains. But they won't get the same rebates, so he who instigates the price increase gets a relative advantage.

Another aspect we've studied at some length are shopping centres. In 1975-76, shopping centres were said not to be increasing. The fact is, however, that shopping centre growth has mushroomed — shopping centre space more than doubled from 1973 to 1980 alone. The interest for small businesses, especially in food, is that chains have a virtually monopoly on this attractive retail space.

What are the actual practical consequences of retail concentration? It is restricted access to the food consumer, made possible by economic aspects which are entirely legal. It is not illegal in Canada to make use of market power to get a better price in buying, although it is in the U.S.

This affects your industry at the point of entry. One example was an individual, a young man trying to start an independent grocery wholesaling establishment in Markham, who testified to the Royal Commission that it is impossible today to enter full grocery wholesaling in Canada. The President of a mid-sized food manufacturer in Ontario, recently agreed: "We could never hope to start this business today as we did 25 years ago. The capital requirements for getting grocery shelf space, to get into the mass market, are too high. Unless you are already in the business, you don't know what the business is like."

However, I believe the future holds a different approach. The gleam is off of the move towards large organizations. Personally, I don't believe farmers are going to have to get bigger, and the move towards

largeness in business generally is over.

The Independent Business Federation testified to the MacDonald Royal Commission that 70% of all net job creation by firms from 1977-1980 was created in firms of independent Canadian-owned businesses as opposed to large businesses. For the period through the 1982 recession all of the jobs were created in small business.

A Stats Canada study confirms that 99 point something percent of all jobs in the period they measured were created by small firms, and 70% of those, in businesses just starting in that period.

We look to small firms as an important source of innovation. Many basic inventions and more than a proportional number of major innovations have come through small firms, or small groups working together. This has relevance for the food industry.

Simple standards of quality and nutrition are a lot more stable in the food industry than they were 50 years ago. But in the last ten years, there has been a reaction against the over-refined, over-packaged food product. This step towards more wholesome values in food, is an innovation that came from small firms, not the large manufacturers.

A great many changes will come from these difficult economic times. Many will come in the small sector because small firms can turn around so rapidly. Others in themselves favour small businesses because technology has been adapted to the small firm, through micro circuitry, allowing fairly low capital investment levels, so that fairly small firms can be active in it.

I think farmers should establish a solidarity with small business in the food industry, not only on the processing and retail side but also on the supply side. We as a food industry need one another. It's true that the small business sector needs the large businesses. We operate in an environment where that's going to continue. We must be responsive to the new technologies and opportunities, in exports, in meeting consumer demand for a more differentiated product or for more quality.

These demands will help break down the concentration problem. We promote the idea that small firms are different and that they need a separate approach. They do not have time to do the paper work the government requires. It's just incredible that we can't reduce the reporting burden.

Our members can't find employees. I know that's true of farmers, too. One out of five of our firms recently told us in a survey they are looking for an employee they can't find. It may be a specialized welder that generally is not available, or a store clerk that can be trusted.

Our members are concerned for the education system — for the general educational level. 20 - 40% of our members say prospective employees don't have suitable skill levels. 40% say they would hire more young people if prospective workers had better attitudes about getting to work on time and doing the job properly.

As for government, our surveys show that businessmen want to do less with government programs.

A lot of our members say the less government the better, but they don't believe it. Government is an extremely important part of our industrial sector. The main role for government is to do governing well. Our members feel the public sector is out of control. They feel that election issues don't deal with economic problems, and they feel this is not the kind of environment, not the kind of country, they want to invest in.

They hold back investing and employing. Fifteen percent off small Ontario manufacturers, down to 20 employees, have a plant in the U.S. and another 25% are planning to do so or are considering it..

In fact, 40% of small business manufacturers down to size 20 are internationals, either expanding to the U.S. to reach that market or because they feel the U.S. is a better place to do business. Our businessmen are asking of government: "Do not hammer us." The usual catch phrase in the U.S. is governments don't care about business. In Canada, it is said governments are against business. The main thing that governments must do is not to pay their employees more than private businesses can afford and to make sure their goals are properly set, so that they don't start a program for a certain specified end, then meld it into other ends and never really find out whether it did what they intended. Governments must become accountable for their expenditures and take the business of governing seriously.

Q. You say the move to bigness is over. In the horticultural industry, there seems to be a rebirth of small business in fruit processing. The development of estate wineries and small fruit processing firms are examples.

Can these small estate industries withstand the kind of severe international competition in, say, the horticultural industry where a lake of European wine is forced on the international markets?

A. Lots of small ventures fail, always do. New technology often causes the most attractive fields to get overcrowded.

Fruit and vegetable processors know European imports are heavily subsidized. People need to be prepared for the real difficulties, and to have the management skills needed, as well as adequate financing and so forth. Still, it should not be the basic task of government to prevent failure. A lot of smaller businesses will fail. The point is rather that there be a real opportunity for entry and that economies that are really there to be garnered, are in fact exploited. When you have an environment like that, you have an adjusting pattern. You force traditional or larger firms to adjust more rapidly. You have a responsive industry. You can find a place for the workers who are laid off because the firm dies. The owners of the firms that die can start over again.

Q. Do independent businessmen do the thing, that I think farmers do too often, that is, try to turn the clock back instead of being positive about what we have and where we are going? There are all kinds of opportunities for small businessmen. There are buying clubs and selling clubs. Are these used to the fullest by independent business?

On the farm side, and I speak here for the milk business, there is the Milk Act that gives us the ability to deal with big business. I am not sure all farmers use that kind of legislation enough. I am not suggesting more quotas, but we need to do a better job of marketing.

In the dairy industry, we deal with Labatt's, Dominion Stores, Loblaws, Kraft. We have to, as groups of farmers or small businessmen, organize ourselves to deal with large organizations and do a much better job of marketing.

A. A lot of independent businesses do not adapt fast enough; they try to continue with a complete type of independence. A lot of independent grocers are not affiliated with IGA or one of the many other buying groups. On the other hand, a lot of them now are. So there is always room for argument as to how much independence they really want. Some of them sacrifice a good deal of income to be completely independent and that's their choice. They have no comeback on public policy nor do they ask the government to change their situation. A number of you here argue whether the marketing board route is right for farmers.

I have defended them as a principle. Our own members voted in 1981 in favour of farmers having supply management, to police the output and the price of their products where they so desire. That is a privilege which, while they approve in principle, many independent food processors bitterly dispute in practice.

On one hand they face an unequal competitive situation to get into the chain stores, and on the other a marketing board price in which they have little or no say. They feel the marketing boards have been inflexible in the recent depression, while they have taken pressure from both ends. They feel that marketing boards isolate themselves too much from the type of back and forth, which small businessmen experience on a regular basis. Marketing boards are treading on thin ice, in not doing more to inform the general public. When our members voted on marketing boards, 25 to 26% didn't answer the question, which is unusual. Usually only 4 or 5% express no opinion.

They don't know about marketing boards even though they are businessmen and more generally knowledgeable about business affairs. It seems to me that farmers experience a lot of pressure because society does not understand them or their marketing boards.

BIOGRAPHY

RICHARD WIETFELDT

Richard Wietfeldt worked for seven years as an economist with the Ontario Federation of Agriculture, conducting studies into most aspects of the food industry and assisting in the Federation's policy formation. He is currently Chief Economist and Director of Research with the Canadian Federation of Independent Business (CFIB), assisting with the entire range of policy issues and information needs of CFIB. He holds an M.A. from the University of Toronto.

A Corporate View of the Future and Government's Place

JON GRANT
President
Quaker Oats Company of Canada

Do we agree on the goals that can bring us together? This question is terribly important not only for farmers but for ourselves as processors and for retailers and the consumer. There are several important issues in that context. As Canadians we must create an economic climate over the next three or four years that will enable the whole business sector to thrive and prosper. One sector cannot grow without the others.

We also owe it to ourselves as part of this agri-food industry to provide staple food supplies at a reasonable cost to domestic consumers. I think we have achieved this particular goal admirably well. We're nearly as low as the Americans in terms of the amount of disposable income spent on food. When you consider we have a harsher climate, we have a great deal more marginal land and a small, spread out population with smaller and less efficient industries, that is a remarkable achievement. In fact, I suspect we are doing a better job in the agri-food business, given our resources, than any other country in the world.

It's easy for us to talk about the three or four solitudes, the farmer, the processor, the retailer and the consumer. It's also easy to talk about us all being one happy family. I didn't think either statement is true. In any free market society, the relationships tend to be somewhat competitively adversarial between buyers and sellers. If they aren't, you really don't get the best out of a free market system. For instance, the buyer is trying to get the lowest price he can and the seller is obviously trying to get the highest price. So this wonderful feeling of cooperation between everybody is really not in the interest of the kind of society that we have.

One area worth really discussing and thinking about is a concern we have in business about "Supply Management Marketing Boards". Richard hit the nail on the head when he said that in a survey of his association members, 25% didn't bother to fill in that particular question. I'm not sure the Canadian public or business people understand what supply management marketing boards are all about. There is confusion between the marketing board structured to help farmers market their products better, through creative advertising for instance, and those that are, as many of us perceive it, intended to keep prices high and availability low.

Now in a sense that is what supply management marketing boards are set up to do. If it's true that this creates a situation where commodities are more expensive in Canada than in the U.S. on a long-term basis, we have indeed a big problem in this country. Statistics show that with the elimination of duty through the GATT arrangements which is already occurring, we are importing finished food products from the U.S. at a rate of $1.7 billion a year, up from about $500 million three or four years ago. That trend is continuing, so if supply management marketing boards are keeping prices artificially high in this country then it behoves us to find another system such as income stabilization to allow the farmer to thrive and prosper by minimizing the terribly high risks of farming. If it is not true, then your industry and those associated with agri-business must explain to the Canadian public and to Canadian business both large and small the benefits of the supply management marketing board system, because it is obviously in our interest as a society to maintain the agricultural viability of this country. A great many jobs depend on it. In fact, if you take all the jobs dependent on agriculture through to the retail store, some 25% of the jobs in this country depend on the agri-food business. A tremendous number of jobs depend on us being competitive, so I'm throwing out a challenge to you people. Those of you on the supply management marketing boards side, find a way to really explain it. If you can't, then you owe it to yourselves to find another solution to this problem.

Another area I want to talk about is government's role. Each of you, in the various segments, makes use of governments in different ways. I'm not suggesting that government has been too much involved, but I do suggest they could be involved a lot less, and a lot more creatively. There are some good signs, certainly at the federal level, where deregulation of certain industries is being discussed. We need certain regulations in food. The safety and quality of food is obviously number one. Packaging descriptions, including ingredient listing, are important. The packages must be bilingual. But why do you find products in our grocery stores that are imported from the U.S. or Italy or the U.K., that don't have to be bilingual, don't have to be in metric, and don't have to describe their ingredients the way we do? That's unfair competition. The federal government says it's difficult for them to police every entry point into Canada, and inspect those imported products. I can sympathize with that, but it's still unfair for the domestic processor to be competing against that, when we have to defend our franchises against increasing amounts of imports.

Another area of real concern is that the manufacturing segment's profit in sales is down to less than 2 cents per sales dollar. That hampers the ability of the industry to put in new plant and equipment. And profits have been trending down steadily from 3.2% cents about three years ago, to little less than 2 cents now. So there's a feeling in the industry of holding; they're not doing much new capital formation.

The other problem is that the grocery business is flat right now. There's no growth, and that may surprise some people. There's growth in certain segments, but in general there's no growth. Statistically in this country, at least one person in seven is on a diet. Think of the successful doctor or lawyer or businessman or a banker of 40 years ago. He tended to be corpulent. He lived well. It was a sign of his success. The absolute reverse is true today. Thinness and exercise and good health are very much a part of our psyche. As a result, people are eating less. Now one can argue that once that sort of drop occurs, consumption will level out. There will be a new base of consumption, which is true. But that drop is still occurring, and occurring in some of the key categories you're involved in. Red meat consumption is going down. Whole grain consumption is increasing. For instance at the Quaker Oats Company, we've had five years of sales and profit

growth. Our profit is up from about 3.2% of sales to 4.7% as of this year. We happen to be in the attractive categories of the grocery business. The whole granola bar market, for instance, has exploded. Much of these products consist of various whole grain cereals. We have to keep that trend in mind. Fresh vegetables and fruit juice consumption are growing.

I hope this news gets out to more farmers through farm associations, because as a farmer you're really an independent businessman. Except for your farm organization or marketing board, you're operating really pretty much isolated from what is going on. As a result, farmers tend to persist in certain categories of farming which the trends indicate are on a decline and may continue to decline. Health, consciousness and weight-watching is not a fad. It's going to increase. People who produce the commodities used by companies like the Quaker Oats Company will benefit.

We as an industry have some responsibility in this process. For instance, the grocery manufacturing companies and their associations do what we call predictive research — trying to find out what's going to happen over the next five or six years. We're going to have set up some mechanism in Ontario, a central research agency perhaps, through which we can share with farm groups either our information or the costs of predictive eating habit research over the next four or five years. We owe it to farm groups to help set up this kind of mechanism. It's unfair to ask an independent businessman working in a certain segment of the market to suffer financial problems because he hasn't shifted quickly enough out of one category of farming into another, because you don't do it one year. It can take five or ten years, for instance, for a farmer to shift out of red meat into something else.

Another area where we should work harder as a grocery or food industry is import substitution. The value of imports, not only from the U.S. but from other countries, is rising and will be an increasing problem. If, for instance, we could have substitutes for 50% of the imported processed foods it would be a tremendous opportunity for us. We can't set up barriers against these products because others will set up barriers against us. As an industry, we have to be more entrepreneurial: we must move into some of these categories of imported products and develop a Canadian alternative, a Canadian alternative that is less expensive.

The future in this business holds tremendous opportunities. I have said for a number of years that food is the oil of the 90's. I know that there's lots of food in the developed countries and the underdeveloped countries can't afford it. But something is going to have to happen between the north and the south in terms of north-south relations. Somehow we're going to have to start sharing the wealth between the developed and the underdeveloped, or very major problems will occur. Sharing the wealth I suspect will come in a variety of ways in which food can be an important factor. In raw materials, Canada is very competitive in world markets. We're not that competitive in finished products; we have a lot of work to do there.

When we talk about competing, we're really talking about competing against the U.S. Canada has the ability to react faster to some world situations than the U.S. because of ideological differences. For example, Canada made the first wheat deal with China. Other big competitors are Argentina and Australia, certainly in the grain business.

If we don't take initiatives in terms of sharing and don't keep our eyes open, we're going to lose markets. The third world may not have the money, but someone will find a way to deal with that — someone who's prepared to live with them for a long time, and we'll lose the market. The Japanese, for example, take a long view.

There aren't many working farmers here — I suspect they don't have the time — but I hope the associations and other delegates will convey to those people on the front line some of the concerns we have shared at this conference.

Q. I would like to ask for suggestions related to the challenge to find a way of explaining the importance of supply management as the basis of some 25% of the employment opportunities.

A. I'm not sure that I understand it as a challenge. Most people, unless they have a specific interest in farming, generally know about farm marketing boards from editorial writers. While farm marketing boards have won good acceptance from provincial governments, they certainly have not from editorial writers. Even economists lack understanding. The type of statements they make about marketing boards is a blight on the profession practically. But how can you blame people in business generally? There isn't a single document you can put in people's hands that explains marketing boards positively. I've been trying since 1974 to get farmers to see that. I tried recently to get a project going to explain the history. Why did farmers feel it necessary to fight so hard for their legislation? What does it actually do? I also think there are some very real challenges to explaining some of the things the boards have done. Are farmers resting on their marketing boards, taking advantage of a legal situation, and not doing all they could to help themselves? Is the legislation properly supervised?

Q. The Economic Council said that supply management marketing boards were costing the Canadian consumer $2 billion a year. Has that number been challenged? Are processors being ripped off? Does the Canadian consumer feel ripped off?

A. I don't thing that's a valid way to ask the question, I think it should go: Does the consumer get milk and dairy products, for example, at a reasonable price — relative to the prices 20 years ago, or to prices in other countries? The answer would probably be a very clear yes. I remember the milk industry before the milk marketing board. I assure you what we have now is a vast improvement.

Our food as a percentage of disposable income in Canada is almost within point percentage of that of the United States. If our system has achieved that, we better start explaining it a lot better.

BIOGRAPHY

JON K. GRANT

Jon K. Grant is President and Chief Executive Officer of The Quaker Oats Company of Canada Limited. A graduate of the University of Western Ontario School of Business Administration, he is a Director of the Consumer's Gas Company, Chairman of the Board of Governors of Trent University and Past Chairman of the Grocery Products Manufacturers of Canada.

He is a member of the Advisory Committee of the School of Business Administration, University of Western Ontario, the Ontario Agricultural Council and the Business Council on National Issues, and served on the Private Sector "6 & 5" Committee and the National Finance Committee of the United Nations Association in Canada.

Ministry Policy Direction: Where We're Coming From and Where We're Going To

CLAYTON SWITZER
Deputy Minister
Ontario Ministry of Agriculture and Food

Whether we're talking at the Ontario level, at the national level or internationally, agriculture is a complex subject.

The basic philosophy of the Ministry of Agriculture and Food is to help farmers help themselves, and that's the philosophy the ministry intends to carry into the future. Another ministry concern is to make the general public aware of the importance of agriculture in Ontario.

My assignment is to talk about the directions and the challenges our ministry faces in the future, but first let's look at where we are now.

What does the Ministry of Agriculture and Food do? What are our roles? We're involved in education, through two-year programs in agricultural colleges, through continuing education programs and through our agricultural offices. We're into research. We have farm management and market development specialists. We help advertise the good things that grow in Ontario. We're inspectors, ensuring that high quality food comes through the system. We're credit counsellors and land use specialists. We have retained some of our early roles but our clientele has expanded a great deal.

In 1950's, the then Department of Agriculture related to farmers. Obviously one of our major functions is still to deal with farmers. We now deal with the overall needs of consumers; if you like, of all society. As the bumper sticker says: "If you eat, you're involved in agriculture."

One of our oldest and most important functions is extension. The 54 agricultural offices across the province are changing, however, with the impact of new technologies on the dissemination of information. The most popular information right now is information on business management techniques. We supply other training needs, too, through technical publications, skill development, and on-site demonstrations.

For agriculture in Ontario, sustainability and self-sufficiency are crucial issues. Self-sufficiency has been dealt with, so let me talk about sustainability. Sustainability means putting a system in place so that our children and grandchildren will have a viable agricultural system. Where do you start? You start with soil. The ministry has very active programs related to soil degradation, and we will be spending more time on them in the future.

North American agriculture, the best in the world, is based primarily on research. Research since 1951 — over the last 35 years or so — has made the agricultural system we have today. Our ministry spends approximately $30 million a year to support agricultural research, by far the highest level of any province. Studies done, both here and in the U.S., show that the cost-benefit ratio from research can be as high as 40 to 1. What better investment could a government have? It's one we plan to continue making.

The question, though, is: Where we are going in the future? What policy directions will we take? What future programs will our ministry have? We live in a time of reduced financial flexibility. We have to strike a balance between the money we have and the programs we want. Each ministry believes it has the highest priority programs of the government. It's my view that new programs will be funded at the expense of existing programs, or possibly through funds from another ministry which is willing or compelled to give them up. But there won't be much money for new programs in the foreseeable future.

We have to impress the 96.4% of the people of Ontario, who do not live on farms, with the importance of agriculture. They may feel that farmers have the right to a good living, but they're not likely to do much about it unless they see how important agriculture is to them.

Education has to bear some of the responsibility for the existing negative attitude to farming. For years there has been little or no agriculture taught in our primary and secondary school systems. My own three children were taught a primarily negative agriculture. They were taught the harm that agriculture does, but nobody ever pointed out that agriculture produces food. The ministry has moved into this vacuum. Starting September '85, agriculture again will be taught in grade 9.

Agriculture, whether you're in the ministry, or a university, or on the farm, is a much more complex thing now than it was 34 years ago. The ministry has to change programs in line with both existing complexities and those we're likely to see in the future.

The agri-food sector is competitive, segmented, and diverse. It will become more so in the future. If agriculture is to be strong in the future, we have to recognize the inter-dependency of the various parts and do something to get the parts to work together. There will be new players coming on side. One such group is the Agricultural Council of Ontario. This is a group of individuals that will act as an independent body to look at various aspects of agriculture and make recommendations directly to the Minister. The members represent a cross-section of people in this province and their input will be valuable in our policy development in the future.

Over the years, the Ministry of Agriculture and Food has developed a wide range of support programs for agriculture, including crop insurance, soil conservation, stabilization, and the beginning farmer assistance programs. I'm in favour of any program that helps young people go into farming, and so far, more than 1,000 young people have made use of our beginning farmer program to get started.

Our soil conservation program will be extended soon with the addition of 14 people over the next few months. They will be placed in areas highly subject to soil erosion. The cost of soil erosion has been estimated at $68 million in this province a year. Our hope is that by putting more people into the program, we can talk directly to farmers and other landowners and convince them that management is crucial to retaining our soil base.

I want to say a word about marketing, because it doesn't matter whether a product can be produced, if the farmer cannot sell it. How can we find markets? Our ministry is involved here along with the private sector. In the public sector we have to be selective in what we do in marketing, and of course we are concerned about the protectionist trends several other speakers have mentioned — among provinces as well as between countries. Any gains made through protec-

tionism will be short-term gains.

The challenges to the future of agriculture are many. We have limited resources, and we have to get the most out of them. We must have co-operation among the different groups in agriculture to meet the goals of both the private and the public sectors. We must tell society about the importance of agriculture.

In our ministry, we see a vibrant agri-food sector in the future. It's beginning to rebound from the recent recession, and although there will be some difficulties and differences of opinion among the different sectors, I think that's in the short term. We'll work them out.

We must recognize that the various segments of the industry and the various levels of government share certain goals. We must work together to achieve them. Our ministry will certainly do it's part.

Q. I'd like to know if there's any data on those 1,000 young farmers starting up under the beginning farmer program. I have a son ready to go into the business. Are they assuming a debt load that the father is just transferring to the son or daughter? Another question relates to soil conservation. Farmers are the best soil conservationists that exist. The reason we're having problems in soil conservation is the cost/price squeeze. It's dictating that you have to get all you can out of that land. Unless commodity prices give us a decent return on our dollar, no soil conservation program will work, because the farmer will look after his land only if he's able to have a viable unit there. I haven't heard any concrete suggestions of how to improve the cash flow of the farmers out there on the back concessions.

A. On the subject of soil conservation, I agree: the first environmentalists were farmers.

Let me take your point one step further. There are two types of sustainability. One is biological sustainability — we must have enough soil with the right kind of nutrients, etc., so that we can farm long into the future. The other is economic sustainability. Unless there's economic sustainability, so that farmers can exist you don't need to worry about biological sustainability. I agree I don't have the answer to this dilemma but I agree with the point. As for the BFAP program, a proportion of these young folks are indeed rolling over their father's operation.

BIOGRAPHY

CLAYTON SWITZER

Clayton Switzer received his MSc from the University of Guelph in 1953 in Weed Science, his Ph.D. from Iowa State in 1955. He joined the Department of Botany, Ontario Agricultural College and became its Chairman in 1967. He was appointed Associate Dean of the College in 1971, and Dean in 1972. He became Deputy Minister, Ontario Ministry of Agriculture and Food in 1984. He has been President of the International Turfgrass Society and President of the Ontario Economic Council. He also was Director and a member of the Executive of the Royal Agricultural Winter Fair and a Director of the Ontario Foundation for Rural Living.

Wrap-up

HANK VANDER POL
President
Rol-land Farms Limited

I'm a farmer and I share some of the optimism the Deputy expressed. You can't be in agriculture, you can't be in business, if you are a pessimist. We get preoccupied with the problems in our industry and what we ought to be preoccupied with are its successes.

One of the ways we'll have success in this business is if we look at the other sectors of our industry and see what are their values, expectations, wants and needs. Most of us are preoccupied with our own wants and needs. You heard them expressed, and genuinely expressed here today.

I don't have any trouble defending our primary producers, and the things they stand for. But, producers are only one sector of the industry. We've got to look at the global picture. Agri-food policy cannot be policy in isolation. We can't just concentrate on the primary producer, we can't just be preoccupied with the food processor, we can't just be preoccupied with the people who supply agriculture. We must look at each one of us as an integral part of the industry. We must recognize those needs that the sectors in our agri-food industry have. If you have the will as an industry, there is generally a way to address those genuine needs for the betterment of all the individuals involved.

Agricultural policy in many, many instances has been a hodge-podge of programs, without any apparent organization or direction to them. So much farm policy has been the result of trying to fix a problem, and has not been forward looking.

Recently, however, in some instances such as the BILD program in the food processing industry, policy has been forward looking, through the co-operation of three sectors, the government, the food processing sector, and the primary producer. For example, in less than 24 months, the industry has increased the domestic production of tomato products in Canada by something in excess of 20%. That's co-operation through innovation by people who are collectively concerned about the future of their industry.

I think the mix of people at today's conference indicate that most of us have a genuine interest in making this agri-food thing work. The participation in this conference speaks very, very highly of the concern that we as Ontario businessmen and women have: that the agri-food sector of our economy is viable and prosperous. The whole secret to making the industry viable and prosperous is to maintain balances amongst the various players in the game. If the processors or the retailers get their power base so big that they can in fact dominate the other players in the market, then we've got a problem.

There may be times when the government has the role of balancing out those powers. That is one of the few places that I think that the government may have a very effective role to play. Marketing boards can get too much power. That power doesn't have to be vested in quotas or in prices of quotas, or the power to set prices. There are other ways that marketing boards can control things. If they get too much power, what happens ultimately is the system becomes uncompetitive on a world scale, and we'll do ourselves in. What we've really talked about here today is that balance of power. How we distribute it? How we maintain it? And if we can reach consensus on these issues as an industry, collectively we can prosper.

BIOGRAPHY

HANK VANDER POL

Hank Vander Pol is President of Rol-land Farms Ltd., Blenheim, and is also President of the Canadian Mushroom Growers' Association, Director of the Ontario Vegetable Growers' Marketing Board, and Senior Consultant with Redma Consultants Ltd. He is also a Member of the Agricultural Research Institute of Ontario and a Member of the Advisory Panel for Farm Facts Ltd., Toronto.

Hank graduated with a B.Sc. (Agr.) in Agricultural Economics at the Ontario Agricultural College, University of Guelph in 1965, and completed his MBA in Marketing and Finance, University of Toronto in 1968.

He is a Member of the Agricultural Institute of Canada and the Ontario Institute of Agrologists.

Agri-Food: A Look Ahead
Banquet Address

KIKA DE LA GARZA
Chairman
U.S. House of Representatives Committee on Agriculture

Canada and the U.S., by accident of geography, are neighbours. But choice has made us friends. We're trading partners, we trade between each other, and we compete out there in other areas. We have, running rampant in our country, a feeling for protectionism in trade. But trade works both ways: we buy from others and they buy from us. We can't just sell, sell, sell and deplete the resources of the other partner.

In preparing for the '85 farm act, we've had a long series of hearings throughout the U.S., in every region, almost every state. We're dealing with peanuts, tobacco, rice, cotton, feed grains, wheat, soya beans, in the omnibus legislation — and with research, credit, conservation and many others, because agriculture has become everybody's business.

We used to bring in agricultural legislation drafted by a few senior members of the House Committee, with a few senior members of the Senate Committee, and a few outside friends, with some indication from the Administration. Now we have at our hearing; implement and fertilizer dealers, academics, environmentalists, chemical companies, farmers, ranchers, bankers, everyone. Everyone who eats is involved in agriculture so that's what we have had to our committees. It's difficult to work with a group but if we can get consensus, we will have a stronger base.

We have a basic subcommittee of 15 members; you need 8 votes to get a bill through a subcommittee. The House Committee has 41 members you need 21 votes to get out of committee. The House has 435 members; you need 218. So, you have to write a bill that gets 218 votes, a majority in the House — the '81 act passed 205 to 203.

Recently I told 300 to 400 farmers in central Michigan, and this applies to farmers in Canada, "You no longer can afford to say, 'I am a farmer'. You have to be a salesman and a PR man, because the public's perception of farmers is negative — they're like used car salesmen or congressmen. The perception of the public is caused partly by media sensationalism about subsidies. Farmers are perceived as causing the deficit. The agriculture budget is $35 billion out of the $800 billion federal budget, less then 3%. But according to the media — the Wall Street Journal or New York Times — farmers get billions of dollars in subsidies and cause the national debt. Almost 40% of that $35 billion goes in food stamps to assist poor people to meet a minimum nutritional level in their diets. If you exclude food stamps, which go to people so they don't go hungry, agriculture gets about 1 1/2% of the total budget.

Our tobacco program costs the government nothing; neither does the sugar program. We produce only about 50% of our sugar and while we support our sugar producers, we do it through tariffs, not the taxpayer's money. Peanuts are a low-cost item. All the dairy programs cost about $2.5 billion, in spite of over-compensating on our emergency stockpiles. This is an infinitesimal amount of the $800 billion budget.

Supply management, or control, is a fact of life throughout the world. When our President talks about the free market, he's talking about the olden days, when you put everything in your wagon on Saturday morning and took it to the town square where you bartered it. What you didn't sell, you gave away or brought back home. That's the free market system. Beyond that, government intervenes, nature intervenes, queens, dictators, socialists, capitalists, everyone meddles with it somehow, and disrupts it.

One area where we have to work together is export. We have set up an export/import study commission to document everything, to put an end to misconception, like the one I heard recently that claims that Canadian sugar is coming in over quota, mixed with rice. This commission will document the facts — what we export, to whom, for what; what we import, from whom, for what — with the preliminary report due in March for input to the farm act.

We have people in our country who think exporting is the answer. But it isn't. One, where the people are, the money isn't. Secondly, you and we export enough already. We also already do enough charity work, through charitable institutions, religious institutions. We can't expect a farmer in terrible difficulties to produce it to give it away.

As many as a third of the producers in the U.S. are in dire circumstances. They say "We have to export. What about all those hungry people in Africa. We have all this butter." I say, "They don't know how to eat butter. If they did, there's no refrigeration. There's only one road that crosses Chad or upper Volta — no transportation, no storage, or refrigeration, no money." We have to document this so our people understand the limitations of exporting and stop blaming foreigners when anything goes wrong. We have to help ourselves.

Now, why is agriculture everybody's business? I asked a submarine commander once, "How long can you keep this submarine under water without surfacing?" He said, "That's a military secret, but you're Chairman of the Farm Committee, take a guess." I couldn't guess. He said, "I can keep this submarine under water as long as I have food for my crew." So who's running the U.S. Navy? The farmers of America are. That's security, that's why agriculture is everybody's business. And yet we can't convince people. They persist in believing farmers are on the dole, getting subsidies. To change that, you have to maneuver, to reshuffle. Why shouldn't government involve itself in the farmer's problems when the nation's security depends on whether the farmer can get the private sector or government credit.

Europeans understand that. They say, "In this century we have suffered hunger. We don't want ever let it happen again." We haven't suffered from hunger in our countries, so our populations do not understand how important agriculture is. We, too, have to build more stability into farm economy, whether through supply management, or subsidy, or what you want.

We, the free capitalistic nations of the world, have to provide the basic food. Not everyone can. We can produce in every season, coast to coast, in some parts of the U.S. If one crop goes; the nation doesn't go, as in the one-crop nations. Lincoln said government ought to and should assist when man cannot do well by himself. Jefferson said much the same. Our founding fathers said a government is responsible for the collective security. Food is the basic security. So government has a responsibility to maintain a stable agriculture.

BIOGRAPHY

E (KIKA) DE LA GARZA

Kika de la Garza served six consecutive 2 year terms in the Texas House of Representatives, from 1955 to 1965.

He was elected to the 89th Congress in November, 1964, and took office in January, 1965. He has been re-elected continuously since then and began his 10th term in January, 1983. In his first term he was awarded a seat on the House Agriculture Committee and has held it continuously. At the beginning of his second term, in January, 1967, he became Chairman of the Agriculture Committee's Subcommittee on Department Investigations, Oversight and Research (later redesignated the Subcommittee on Department Operations, Research and Foreign Agriculture) and continued to head that panel until the end of 1980. In January 1979, he was elected Vice Chairman of the full Agricultural Committee in addition to his subcommittee Chairmanship. In January 1981, at the beginning of the 97th Congress, he became Chairman of the full Agriculture Committee and was re-elected to that position in January 1983, for the 98th Congress.

During his House service, Rep. de la Garza's record has included active promotion of legislation to protect and improve the farm and rural economy through crop stabilization programs, expanded agricultural export trade, rural development programs, soil conservation and agricultural credit. He has been active in promoting the maintenance of research programs needed to permit American agriculture to meet growing domestic and world needs. As a subcommittee Chairman, he played a key role in drafting and enacting laws dealing with pesticide use and safety and animal health. Additionally, he has been prominent in efforts to establish and maintain a stabilization program for sugar growers and has maintained a close and active interest in assuring maintenance of programs which protect major agricultural areas from invasions of costly foreign insect pests.